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**LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES****CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2009**

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Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 9/15/10

**P&N** Postlethwaite  
& Netterville

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**LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

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**LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES**

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**INDEPENDENT AUDITORS' REPORT**

Officers and Trustees  
Louisiana Municipal Association and Subsidiaries  
Baton Rouge, Louisiana

We have audited the accompanying consolidated statements of financial position of Louisiana Municipal Association and Subsidiaries (the Association) as of December 31, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit also includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion of the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Louisiana Municipal Association and Subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating schedules included on pages 14 through 17 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies. The consolidating schedules have been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 8, 2010

**LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**DECEMBER 31, 2009 AND 2008**

	<b><u>ASSETS</u></b>	
	2009	2008
Cash and cash equivalents	\$ 3,097,646	\$ 2,024,317
Investments, at estimated fair value (note 2)	3,380,921	3,841,772
Accounts receivable, net	115,534	208,412
Due from affiliates (note 3)	886,471	1,239,090
Prepaid expenses	126,336	122,563
Land, building and equipment, net (note 4)	3,967,888	4,195,504
Other assets	63,627	62,842
Total assets	<u>\$ 11,638,423</u>	<u>\$ 11,694,500</u>
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
Liabilities:		
Unearned dues and fees	\$ 141,992	\$ 83,904
Accounts payable and accrued expenses	169,368	186,160
Claims processing liability	250,000	250,000
Total liabilities	561,360	520,064
Net assets - unrestricted	<u>11,077,063</u>	<u>11,174,436</u>
Total liabilities and net assets	<u>\$ 11,638,423</u>	<u>\$ 11,694,500</u>

The accompanying notes are an integral part of these consolidated financial statements.

**LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Changes in unrestricted net assets:		
Revenues and other support:		
Administrative fees and commissions (note 3)	\$ 4,830,946	\$ 4,788,885
Membership dues	288,162	286,974
Legal services (note 3)	374,377	315,396
Rent	132,791	129,899
Investment income, net (note 2)	35,670	344,874
Other income	<u>323,566</u>	<u>326,514</u>
Total revenues and other support	<u>5,985,512</u>	<u>6,192,542</u>
Expenses:		
General and administrative expenses	<u>6,087,359</u>	<u>5,887,720</u>
Change in unrestricted net assets before income taxes	(101,847)	304,822
Income tax expense (benefit)	<u>(4,474)</u>	<u>6,919</u>
Change in unrestricted net assets	(97,373)	297,903
Net assets - unrestricted, beginning of year	<u>11,174,436</u>	<u>10,876,533</u>
Net assets - unrestricted, end of year	<u><u>\$ 11,077,063</u></u>	<u><u>\$ 11,174,436</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

**LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in unrestricted net assets	\$ (97,373)	\$ 297,903
Adjustments to reconcile the change in unrestricted net assets to net cash provided by operations:		
Depreciation and amortization	352,211	337,978
Deferred income taxes	(9,799)	(25,575)
Change in receivables, prepaids, due from affiliates and other assets	442,004	200,560
Changes in accounts payable, accrued expenses and unearned dues and fees	41,016	(203,248)
Net cash provided by operating activities	<u>728,059</u>	<u>607,618</u>
Cash flows from investing activities:		
Purchases of equipment	(124,595)	(308,411)
Purchases of investments	(1,433,314)	(2,952,241)
Proceeds from sales and maturities of investments	1,903,179	737,813
Net cash provided by (used in) investing activities	<u>345,270</u>	<u>(2,522,839)</u>
Net change in cash	1,073,329	(1,915,221)
Cash, beginning of year	<u>2,024,317</u>	<u>3,939,538</u>
Cash, end of year	<u>\$ 3,097,646</u>	<u>\$ 2,024,317</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for income taxes	<u>\$ 13,072</u>	<u>\$ 40,909</u>

The accompanying notes are an integral part of these consolidated financial statements.

## LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. SIGNIFICANT ACCOUNTING POLICIES

##### *(a) Principles of Consolidation*

The accompanying consolidated financial statements include Louisiana Municipal Association (LMA) and its wholly-owned subsidiaries Risk Management, Inc. (RMI) and Louisiana Municipal Advisory and Technical Services Bureau Corporation (LaMats). All intercompany transactions and balances have been eliminated.

##### *(b) Organization Background*

LMA is an association for the municipalities of Louisiana and is incorporated as a non-profit corporation under the laws of the State of Louisiana.

RMI, a Louisiana corporation, serves as the third-party administrator for the Louisiana Municipal Risk Management Agency (LMRMA), which was formed under Louisiana Act No. 462 of 1979, to provide a program of interlocal risk management for LMA's member municipalities. LMA and RMI are related by common management to LMRMA (Worker's Compensation Fund, Public Liability Fund and Accident and Health Fund), the Louisiana Municipal Reserve Fund Agency (LMRFA), and the Louisiana Municipal Association - Unemployment Compensation Fund (LMA-UCF).

Risk Management Insurance Agency (RMIA), which is a wholly-owned subsidiary of RMI, was incorporated in 1992 to act as an agent for purchasing insurance on behalf of member municipalities and others.

LaMats was incorporated in 1998 for the purpose of providing various advisory and technical services primarily to the membership of the LMA.

##### *(c) Financial Statement Presentation*

LMA's net assets, support and revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Unrestricted net assets are those that are not subject to donor-imposed stipulations. Currently, LMA has only unrestricted net assets.

LMA reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

##### *(d) Investments*

Investments, consisting of U.S. Government Agency and mortgaged backed obligations, U.S. Treasury securities and corporate obligations are recorded at estimated fair value. Unrealized gains and losses on investments in debt securities are recorded in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or law. Investment income is recorded as increases in unrestricted net assets unless the use is restricted by donor.

# LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *(e) Depreciation and Amortization*

Depreciation and amortization are computed using straight-line and accelerated methods over the estimated useful lives of the assets as follows:

Buildings and fixtures and leasehold improvements	5-40 years
Office equipment	5-10 years
Automobiles	3-5 years
Land improvements	5 years
Computer equipment and software	3-5 years

#### *(f) Dues Income - LMA*

Amounts collected in the current year for membership dues for the following year are recorded as unearned income in the current year. Dues for the current year not collected at December 31 are recorded as income and receivable for the current year. Accounts receivable consist primarily of dues and billings for services and are stated at unpaid balances, less an allowance for doubtful accounts. LMA provides for bad debts using the allowance method whereby bad debts are recognized when prior experience and circumstances affect the ability to collect are doubtful. For the years ended December 31, 2009 and 2008 accounts receivable were considered to be fully collectible and there was therefore no allowance deemed necessary.

#### *(g) Administrative Fees and Commissions*

Amounts earned in the current year are based on an estimate of earned premium of LMRMA. Any adjustments from estimated earned premium to actual earned premium are adjusted in the year in which they become known.

#### *(h) Cash and cash equivalents*

For the purposes of the consolidated statements of cash flows, cash includes cash in demand deposit and sweep accounts with financial institutions.

#### *(i) Use of Estimates*

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating the claims processing liability, depreciation, and the fair value of investments. If future experience differs materially for the estimates and assumptions, the consolidated financial statements could be affected.

## LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### *(j) Claims Processing Liability*

As service agent for the LMRMA, RMI has responsibility for the administration of the claims related to the 2009 and prior fund years. This liability has been estimated based on the estimated costs necessary to fulfill this obligation to continue as service agent for the years for which revenue has been received and recognized.

##### *(k) Reclassifications*

Certain items in the 2008 financial statements have been reclassified to be comparative to the 2009 presentation.

##### *(l) Income Taxes*

Provisions for income taxes are based on taxes payable or refundable for the current year based on taxable income and deferred taxes on temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Association adopted the recent accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon termination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-than-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance, if based on the weight of evidence available, it is more likely than not that some portion or all of deferred tax asset will not realized.

The Association recognizes interest and penalties on income taxes as a component of income tax expense.

**LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. INVESTMENTS AND FAIR VALUE MEASUREMENTS**

The amortized cost of investments is \$3,269,637 and \$3,586,871 at December 31, 2009 and 2008, respectively. The estimated fair value of investments by security type at December 31, 2009 and 2008 are as follows:

<u>Investment Type</u>	<u>2009</u>		<u>2008</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S Treasury bonds and notes	\$ 1,548,122	\$1,520,667	\$ 1,348,821	\$ 1,229,424
U.S. Government mortgage-backed securities	471,248	448,846	483,522	455,762
U.S. agency debt obligations	915,801	868,903	1,775,662	1,676,898
Corporate obligations	<u>445,750</u>	<u>431,221</u>	<u>233,767</u>	<u>224,787</u>
<b>TOTAL</b>	<b><u>\$ 3,380,921</u></b>	<b><u>\$3,269,637</u></b>	<b><u>\$ 3,841,772</u></b>	<b><u>\$ 3,586,871</u></b>

Net investment income for the years ended December 31, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Interest income	\$ 127,497	\$ 139,491
Realized gains – net	55,344	7,706
Unrealized (losses) gains arising during year, net	<u>(147,171)</u>	<u>197,677</u>
	<b><u>\$ 35,670</u></b>	<b><u>\$ 344,874</u></b>

In accordance with the *Fair Value Measurements and Disclosure* topic of Financial Accounting Standards Board Accounting Standards codification (FASB ASC), disclosure of fair value information about financial instruments, whether or not recognized in the statements of financial position is required. Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instruments. Therefore, the aggregate fair value amounts presented do not represent the underlying value of LMA.

The recent fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

## LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 2. INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

##### Fair Value Hierarchy

In accordance with this guidance, LMA groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

- Level 1 - valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 - valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.
- Level 3 - valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

##### Fair Value of Assets Measured on a Recurring Basis

LMA's investments are measured on a recurring basis through models used by its investment custodian. As of December 31, 2008 and 2009, all securities meet Level 2 criteria.

# LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **3. RELATED PARTY TRANSACTIONS**

LMA provides services related to the LMRMA's self-insurance funds operated for the benefit of member Louisiana municipalities. The fees for these services are based on a percentage of the respective earned normal premiums (ENP) for the year ended December 31, 2009 and 2008. The following summarizes administrative fees earned by LMA from LMRMA for the years ended December 31, 2009 and 2008, and balances due from LMRMA:

		<u>Administrative fees earned from LMRMA</u>	<u>Due from LMRMA</u>
<b>2009:</b>	Workers' Compensation	\$ 959,972	\$ 365,972
	Public Liability	677,155	230,325
	Accident and Health	<u>13,273</u>	<u>1,350</u>
		<u>\$ 1,650,400</u>	<u>\$ 597,647</u>
<b>2008:</b>	Workers' Compensation	\$ 899,268	\$ 599,268
	Public Liability	677,155	437,155
	Accident and Health	<u>13,034</u>	<u>1,030</u>
		<u>\$ 1,589,457</u>	<u>\$ 1,037,453</u>

LMA also provides legal assistance for the various member municipalities and the LMRMA on a fee for service basis.

RMI has a contract with LMRMA to provide service agent services for a percentage of ENP for the year ended December 31, 2009 and 2008. Balances and amounts from transactions with LMRMA during the years ended December 31 are as follows:

	<u>2009</u>	<u>2008</u>
Service fees earned	\$ <u>2,187,202</u>	\$ <u>2,070,544</u>
Percent of RMI's total service fees and commissions	<u>85.7%</u>	<u>80.5%</u>
Balance due from LMRMA	\$ <u>288,824</u>	\$ <u>201,637</u>

In addition, RMI receives a five percent commission on reinsurance purchased by LMRFA.

# LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 3. RELATED PARTY TRANSACTIONS (continued)

LMRMA provides accident and health and workers' compensation insurance to employees of LMA and RMI. The total consolidated insurance expense (included in employee benefits) was \$216,902 and \$207,547 during the years ended December 31, 2009 and 2008, respectively, for these employee insurance costs.

### 4. LAND, BUILDING AND EQUIPMENT

Land, building and equipment consisted of the following as of December 31:

	<u>2009</u>	<u>2008</u>
Land	\$ 530,000	\$ 530,000
Buildings and leasehold improvements	5,617,773	5,598,744
Furniture and equipment	1,530,304	2,003,016
Vehicles	<u>97,806</u>	<u>120,381</u>
	7,775,883	8,252,141
Accumulated depreciation and amortization	<u>( 3,807,995)</u>	<u>( 4,056,637)</u>
	<u>\$ 3,967,888</u>	<u>\$ 4,195,504</u>

### 5. INCOME TAXES

LMA is incorporated as a non-profit organization and has been granted an exemption from income taxes under Section 501(c)(4) of the Internal Revenue Code. However, certain activities of LMA may be subject to income tax as unrelated business taxable income.

RMI is a taxable entity which had income tax benefit of \$12,572 and \$1,281 2009 and 2008, respectively. LaMats is a taxable entity which had income tax expense of \$8,200 and \$8,098 in 2009 and 2008, respectively. Timing differences between financial statement and taxable income relate primarily to the liability for estimated future claims processing costs and depreciation. The consolidated provision for income taxes for the years ended December 31, 2009 and 2008 is summarized as follows:

	<u>2009</u>	<u>2008</u>
Taxes payable currently	\$ 5,325	\$ 32,494
Deferred tax expense (benefit)	<u>( 9,799)</u>	<u>( 25,575)</u>
	<u>\$( 4,474)</u>	<u>\$ 6,919</u>

The federal tax years open for assessment are years ending December 31, 2006 through December 31, 2009.

**LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**5. INCOME TAXES (continued)**

Components of the net deferred tax asset which is included in other assets on the accompanying consolidated statements of financial position are as follows at December 31:

	<u>2009</u>	<u>2008</u>
Deferred tax assets (liabilities):		
Claims processing liability	\$ 49,122	\$ 49,122
Depreciation on premises and equipment	( 9,121)	( 18,920)
Net deferred tax asset	<u>\$ 40,001</u>	<u>\$ 30,202</u>

**6. DEFERRED COMPENSATION PLAN**

LMA offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

**7. MULTI-EMPLOYER PENSION PLAN**

All full-time employees of LMA and RMI's (including related subsidiaries) participate in Plan A of the Municipal Employee's Retirement System of Louisiana (the Plan), a multiple-employer municipal employee retirement system. The payroll for LMA's employees covered by the Plan for the years ended December 31, 2009 and 2008 was \$1,209,572 and \$1,172,434, respectively. Payroll for RMI's employees covered by the Plan for the years ended December 31, 2009 and 2008 was \$883,703 and \$852,770, respectively.

All employees of LMA and RMI are required to participate in the Plan if they are under the age of 60, are full-time employees, and are not participating in another publicly funded retirement system. Any employee can retire provided he or she meets one of the following criteria: any age with 25 or more years of credited service or age 60 with a minimum of 10 years of credited service. Retirees are entitled to a retirement benefit, payable monthly for life, equal to 3 percent of the member's final compensation multiplied by his years of creditable service, not to exceed 100 percent of the member's final salary. Employees become fully vested upon reaching 10 years of service. The Plan also provides survivor's and disability benefits. Covered employees are required to contribute a percentage of their salary to the Plan (the rate is determined by the Plan and can fluctuate). Of the total contribution required to be contributed for a covered employee, the employees contribute 5%, while LMA and RMI contribute the remainder. LMA and RMI's contribution percentage is 17.75% for the year ended December 31, 2009 and 2008. The contribution requirement for LMA for the years ended December 31, 2009 and 2008 was \$271,909 and \$259,650, which consisted of \$214,699 and \$204,855 from LMA and \$57,210 and \$54,795 from employees, respectively. The contribution requirement for RMI for the years ended December 31, 2009 and 2008 was \$204,372 and \$193,630, which consisted of \$160,187 and \$151,194 from RMI, and \$44,185 and \$42,436 from employees, respectively.

**LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**8. CONTINGENCIES AND COMMITMENTS**

LMA and its subsidiaries may become involved in litigation from time-to-time through the ordinary course of operations which management believes will not have a material adverse effect upon the consolidated financial statements.

The Association maintains its cash and cash equivalents in bank deposit accounts at a local financial institution. The balance, at times, may exceed the federally insured limits. The insured limits at December 31, 2009, are based on deposit insurance levels elected by the respective financial institutions and the type and extent of deposits maintained by the Association at the respective financial institutions.

**9. SUBSEQUENT EVENTS**

Management has evaluated events through the date that the financial statements were available to be issued, June 8, 2010 and determined that there were no events that require disclosures.

**CONSOLIDATING SCHEDULES**

## LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES

CONSOLIDATING SCHEDULES OF FINANCIAL POSITION  
DECEMBER 31, 2009 AND 2008

	2009							2008						
	Louisiana Municipal Advisory and Technical Services Bureau Corp.							Louisiana Municipal Advisory and Technical Services Bureau Corp.						
Assets	Louisiana Municipal Association	Risk Management Inc.	Eliminations	Consolidated	Louisiana Municipal Association	Risk Management Inc.	Eliminations	Louisiana Municipal Association	Risk Management Inc.	Eliminations	Consolidated	Louisiana Municipal Association	Risk Management Inc.	Eliminations
Cash	\$ 2,253,695	\$ 567,041	\$ -	\$ 3,097,646	\$ 1,165,247	\$ 723,366	\$ -	\$ 1,165,247	\$ 723,366	\$ -	\$ 2,024,317	\$ 1,165,247	\$ 723,366	\$ -
Investments	3,380,921	-	-	3,380,921	3,841,772	-	-	3,841,772	-	-	3,841,772	3,841,772	-	-
Accounts receivable, net	89,072	20,934	5,528	115,534	134,950	5,983	-	134,950	5,983	-	208,412	134,950	5,983	-
Due from affiliates	597,647	288,824	-	886,471	1,037,733	201,637	-	1,037,733	201,637	(280)	1,239,090	1,037,733	201,637	(280)
Prepaid expenses	98,710	14,126	13,500	126,336	89,677	19,361	-	89,677	19,361	-	122,563	89,677	19,361	-
Investment - subsidiary	967,134	-	-	-	970,466	-	(967,134)	970,466	-	-	-	970,466	-	(970,466)
Land, building and equipment, net	3,865,002	96,113	6,773	3,967,888	4,038,433	146,182	-	4,038,433	146,182	-	4,195,504	4,038,433	146,182	-
Other assets	23,626	40,001	-	63,627	32,640	30,202	-	32,640	30,202	-	62,842	32,640	30,202	-
Total assets	\$ 11,275,807	\$ 1,027,039	\$ 302,711	\$ 11,638,423	\$ 11,310,918	\$ 1,126,731	\$ (967,134)	\$ 11,310,918	\$ 1,126,731	\$ (970,746)	\$ 11,694,500	\$ 11,310,918	\$ 1,126,731	\$ (970,746)
Liabilities and Net Assets														
Liabilities:														
Unearned dues and fees	\$ 141,992	\$ -	\$ -	\$ 141,992	\$ 83,904	\$ -	\$ -	\$ 83,904	\$ -	\$ -	\$ 83,904	\$ 83,904	\$ -	\$ -
Accounts payable and accrued expenses	56,752	83,389	29,227	169,368	52,578	113,503	-	52,578	113,503	-	196,160	52,578	113,503	-
Due to affiliates	-	-	-	-	-	280	-	-	280	(280)	-	-	-	(280)
Claims processing liability	-	250,000	-	250,000	-	250,000	-	-	250,000	-	250,000	-	250,000	-
Total liabilities	198,744	333,389	29,227	561,360	136,482	363,783	-	136,482	363,783	(280)	520,064	136,482	363,783	(280)
Net assets - unrestricted	11,077,063	693,650	273,484	11,077,063	11,174,436	762,948	(967,134)	11,174,436	762,948	(970,466)	11,174,436	11,174,436	762,948	(970,466)
Total liabilities and net assets	\$ 11,275,807	\$ 1,027,039	\$ 302,711	\$ 11,638,423	\$ 11,310,918	\$ 1,126,731	\$ (967,134)	\$ 11,310,918	\$ 1,126,731	\$ (970,746)	\$ 11,694,500	\$ 11,310,918	\$ 1,126,731	\$ (970,746)

See accompanying independent auditors' report.

## LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES

CONSOLIDATING SCHEDULES OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009						2008					
	Louisiana Municipal Association	Risk Management Inc.	Louisiana Municipal Advisory Technical Services Bureau, Corp.	Eliminations	Consolidated		Louisiana Municipal Advisory Technical Services Bureau, Corp.	Risk Management Inc.	Louisiana Municipal Association		Eliminations	Consolidated
Changes in unrestricted net asset:												
Revenues and other support:												
Administrative fees and commissions	\$ 1,947,214	\$ 2,550,725	\$ 473,307	\$ (140,300)	\$ 4,830,946	\$ 1,889,793	\$ 2,572,724	\$ 467,868	\$ (141,500)	\$ 4,788,885		
Membership dues	288,162	-	-	-	288,162	286,974	-	-	-	286,974		
Legal services	374,377	-	-	-	374,377	315,396	-	-	-	315,396		
Rent	189,731	-	-	(56,940)	132,791	186,771	-	-	(56,872)	129,899		
Investment income	35,487	-	183	-	35,670	342,861	-	2,013	-	344,874		
Other income	322,824	742	-	-	323,566	320,328	6,186	-	-	326,514		
Equity in income (loss) of subsidiaries	(3,332)	-	-	3,332	-	28,277	-	-	(28,277)	-		
Total revenues and other support	3,154,463	2,551,467	473,490	(193,908)	5,985,512	3,370,400	2,578,910	469,881	(226,649)	6,192,542		
Expenses:												
General and administrative	3,251,836	2,633,337	399,426	(197,240)	6,087,359	3,072,497	2,593,731	419,864	(198,372)	5,887,720		
Total expenses	3,251,836	2,633,337	399,426	(197,240)	6,087,359	3,072,497	2,593,731	419,864	(198,372)	5,887,720		
Change in unrestricted net assets before income taxes	(97,373)	(81,870)	74,064	3,332	(101,847)	297,903	(14,821)	50,017	(28,277)	304,822		
Income tax expense (benefit)	-	(12,572)	8,098	-	(4,474)	-	(1,281)	8,200	-	6,919		
Change in unrestricted net assets	(97,373)	(69,298)	65,966	3,332	(97,373)	297,903	(13,540)	41,817	(28,277)	297,903		
Net assets - unrestricted, beginning of year	11,174,436	762,948	207,518	(970,466)	11,174,436	10,876,533	776,488	165,701	(942,189)	10,876,533		
Net assets - unrestricted, end of year	\$ 11,077,063	\$ 693,650	\$ 273,484	\$ (967,134)	\$ 11,077,063	\$ 11,174,436	\$ 762,948	\$ 207,518	\$ (970,466)	\$ 11,174,436		

See accompanying independent auditors' report.

## LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES

CONSOLIDATING SCHEDULES OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009					2008				
	Louisiana Municipal Association	Risk Management Inc.	Louisiana Municipal Advisory Technical Services Bureau, Corp.	Eliminations	Consolidated	Louisiana Municipal Advisory Technical Services Bureau, Corp.	Risk Management Inc.	Louisiana Municipal Association	Eliminations	Consolidated
Cash flows from by operating activities:										
Change in unrestricted net assets	\$ (97,373)	\$ (69,298)	\$ 65,966	\$ 3,332	\$ (97,373)	\$ 297,903	\$ (13,540)	\$ 41,817	\$ (28,277)	\$ 297,903
Adjustments to reconcile change in unrestricted net assets to net cash provided by (used in) operations:										
Depreciation and amortization	293,313	54,782	4,116	-	352,211	264,494	66,389	7,095	-	337,978
Deferred income tax	-	(9,799)	-	-	(9,799)	-	(25,575)	-	-	(25,575)
Equity in subsidiary	3,332	-	-	(3,332)	-	(28,277)	-	-	28,277	-
Change in receivables, prepaids, due to/from affiliates and other assets	476,931	(96,903)	61,976	-	442,004	334,619	(80,890)	(53,169)	-	200,560
Changes in accounts payable, accrued expenses and unearned dues and fees	62,262	(30,394)	9,148	-	41,016	(29,055)	(40,422)	(133,771)	-	(203,248)
Net cash provided by (used in) operating activities	738,465	(151,612)	141,206	-	728,059	839,684	(94,038)	(138,028)	-	607,618
Cash flows from investing activities:										
Purchases of equipment	(119,882)	(4,713)	-	-	(124,595)	(308,411)	-	-	-	(308,411)
Purchases of investments	(1,433,314)	-	-	-	(1,433,314)	(2,952,241)	-	-	-	(2,952,241)
Proceeds from sales and maturities of investments	1,903,179	-	-	-	1,903,179	737,813	-	-	-	737,813
Net cash used in investing activities	349,983	(4,713)	-	-	345,270	(2,522,839)	-	-	-	(2,522,839)
Net change in cash	1,088,448	(156,325)	141,206	-	1,073,329	(1,683,155)	(94,038)	(138,028)	-	(1,915,221)
Cash, beginning of year	1,165,247	723,366	135,704	-	2,024,317	2,848,402	817,404	273,732	-	3,939,538
Cash, end of year	\$ 2,253,695	\$ 567,041	\$ 276,910	\$ -	\$ 3,097,646	\$ 1,165,247	\$ 723,366	\$ 135,704	\$ -	\$ 2,024,317

See accompanying independent auditors' report.

## LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES

CONSOLIDATING SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES  
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009					2008				
	Louisiana Municipal Association	Risk Management Inc.	Louisiana Municipal Advisory and Technical Services Bureau, Corp.	Eliminations	Consolidated	Louisiana Municipal Association	Risk Management Inc.	Louisiana Municipal Advisory and Technical Services Bureau, Corp.	Eliminations	Consolidated
Accounting, audit and actuary	\$ 10,400	\$ -	\$ 13,700	\$ (9,000)	\$ 15,100	\$ 11,200	\$ -	\$ 13,700	\$ (9,000)	\$ 15,900
Administrative fees	-	56,300	315,525	(131,300)	240,525	-	57,500	306,600	(132,500)	231,600
Advertising	-	3,436	5,880	-	9,316	-	5,275	5,880	-	11,155
Board and district meetings	10,081	-	-	-	10,081	10,000	-	-	-	10,000
Books and periodicals	-	6,931	-	-	6,931	-	6,009	-	-	6,009
Claims processing outsourced	-	599,134	-	-	599,134	-	571,775	-	-	571,775
Commissions	-	14,266	-	-	14,266	-	14,145	-	-	14,145
Convention/conference expenses	282,167	-	-	-	282,167	268,126	-	-	-	268,126
Consulting	123,260	142,842	-	-	266,102	78,900	152,646	-	-	231,546
Depreciation and amortization	293,313	54,782	4,116	-	352,211	264,494	66,389	7,095	-	337,978
Dues	21,360	485	-	-	21,845	19,319	185	-	-	19,504
Education	14,468	47,153	-	-	61,621	16,613	45,367	-	-	61,980
Employee benefits	406,614	310,687	-	-	717,301	388,017	298,641	-	-	686,658
Equipment, maintenance and rental	48,965	51,630	-	-	100,595	49,117	44,544	-	-	93,661
Field audits	-	76,988	-	-	76,988	-	74,376	-	-	74,376
Insurance	58,492	9,932	-	-	68,424	51,621	13,792	-	-	65,413
Legal services	76,275	-	2,953	-	79,228	32,250	-	26,609	-	58,859
Legislative support	3,926	-	-	-	3,926	4,892	-	-	-	4,892
Louisiana Municipal Review	53,759	-	-	-	53,759	40,814	-	-	-	40,814
Miscellaneous	57,378	18,437	28,814	-	104,629	72,502	47,939	31,031	-	151,472
National League of Cities	1,452	-	-	-	1,452	1,096	-	-	-	1,096
Office supplies and postage	80,609	36,519	-	-	117,128	65,801	26,738	-	-	92,539
Payroll taxes	-	82,683	-	-	82,683	-	82,685	-	-	82,685
Per diem - Board	64,500	14,100	-	-	78,600	72,000	14,100	-	-	86,100
Professional services	34,421	-	19,000	-	53,421	32,500	-	19,500	-	52,000
Printing	19,054	6,285	-	-	25,339	28,191	-	-	-	38,866
Public Information	13,547	-	-	-	13,547	15,567	10,675	-	-	15,567
Rent	15,600	53,580	3,360	(56,940)	15,600	15,600	53,512	3,360	(56,872)	15,600
Salaries	1,251,613	966,830	-	-	2,218,443	1,195,603	928,402	-	-	2,124,005
Telephone	28,442	23,605	6,078	-	58,125	28,699	22,273	6,089	-	57,061
Travel and meetings	84,241	56,732	-	-	140,973	71,105	56,763	-	-	127,868
Utilities and maintenance	197,899	-	-	-	197,899	238,470	-	-	-	238,470
Total general and administrative expenses	\$ 3,251,836	\$ 2,633,337	\$ 399,426	\$ (197,240)	\$ 6,087,359	\$ 3,072,497	\$ 2,593,731	\$ 419,864	\$ (198,372)	\$ 5,887,720

See accompanying independent auditors' report.

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**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

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**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

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**INDEPENDENT AUDITORS' REPORT**

Officers and Trustees  
Louisiana Municipal Risk Management Agency  
Accident and Health Fund  
Baton Rouge, Louisiana

We have audited the accompanying statements of net assets of Louisiana Municipal Risk Management Agency – Accident and Health Fund (a quasi-public organization) (the Fund) as of December 31, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Accident and Health Fund as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 8, 2010, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audits.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 8, 2010

## **LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - ACCIDENT AND HEALTH FUND**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS** **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Risk Management Agency – Accident and Health Fund (the Fund) presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2009 and 2008. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

#### **Financial Highlights**

- The assets of the Fund exceeded its liabilities at December 31, 2009 by \$1,507,439 compared to the Funds assets exceeding its liabilities by \$1,345,633 as of December 31, 2008.
- At December 31, 2009, the Fund's assets totaled \$3,788,948, which consisted primarily of cash and receivables, as compared to a balance of \$3,730,049 at December 31, 2008.
- The Fund reported gross premiums earned of \$12,738,277 and \$12,742,605 during the years ended December 31, 2009 and 2008, respectively.
- The Fund reported an increase in net assets of \$161,806 during the year ended December 31, 2009 compared to an increase in net assets of \$1,340,287 during the year ended December 31, 2008.

#### **Overview of the Financial Statements**

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the basic financial statements, which explain some of the information in the basic financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by the private sector. The Statements of Net Assets include all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). They also provide the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. These statements measure the success of the Fund's operations over the year and can be used to determine profitability, credit worthiness, and whether the Fund has successfully recovered all its costs through its premium and investment income. The final required financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - ACCIDENT AND HEALTH FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Overview of the Financial Statements (continued)**

The preparation of these financial statements requires the utilization of significant estimates, many of which will not be known for many years. Changes in estimates as well as the differences in actual results and estimated amounts will be included in the Statements of Revenues, Expenses and Changes in Net Assets as these circumstances become known.

**Financial Analysis of the Fund**

The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the net assets of the Fund and changes in it. Net assets (difference between assets and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net assets are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, healthcare costs, judicial environment, and new or changed government legislation.

**Condensed Statements of Net Assets**

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Total assets	\$ 3,788,948	\$ 3,730,049
Total liabilities	<u>2,281,509</u>	<u>2,384,416</u>
Net assets	<u>\$ 1,507,439</u>	<u>\$ 1,345,633</u>

At December 31, 2009, the Fund's assets represent approximately 166% of the Fund's estimated liabilities as compared to 156% at December 31, 2008. The Fund's total liabilities consist primarily of estimated claims payable, which decreased approximately 12% due to lower estimated claims for the upcoming year. In 2009, there was a large claim paid.

**Condensed Statements of Revenues and Expenses and Changes in Net Assets  
for the Years Ended December 31:**

	<u>2009</u>	<u>2008</u>
Operating revenues	\$ 12,738,277	\$ 12,742,605
Operating expenses	<u>12,584,480</u>	<u>11,437,324</u>
Operating income	153,797	1,305,281
Non-operating income	<u>8,009</u>	<u>35,006</u>
Change in net assets	<u>\$ 161,806</u>	<u>\$ 1,340,287</u>

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - ACCIDENT AND HEALTH FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Financial Analysis of the Fund (continued)**

The Fund experienced an excess of revenues over expenses in the amount of \$161,806 for the current year resulting primarily from an increase in claims expense and loss ratio consistent with premiums. (See Statements of Revenues, Expenses and Changes in Net Assets on page 6 of this report). During the year ended December 31, 2009, the Fund reported premium income of \$12,738,277 and investment income of \$8,009. The Fund reported total expenses of \$12,584,480, which consisted primarily of claims expense, excess insurance and service agent expenses. Claims expense incurred during the year ended December 31, 2009 and 2008 represented 88% and 79% of premium income, respectively.

**Requests for Information**

This financial report is designed to provide members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Risk Management Agency – Accident and Health Fund, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**STATEMENTS OF NET ASSETS**  
**DECEMBER 31, 2009 AND 2008**

**ASSETS**

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents (note 4)	\$ 2,950,114	\$ 2,477,411
Accounts receivable, net	123,264	498,529
Reinsurance receivable	<u>715,570</u>	<u>754,109</u>
Total assets	<u>\$ 3,788,948</u>	<u>\$ 3,730,049</u>

**LIABILITIES AND NET ASSETS**

Liabilities:		
Unpaid claims liability (note 3)	\$ 1,876,000	\$ 2,123,000
Accounts payable and other liabilities	280,066	144,293
Due to affiliates (note 2)	<u>125,443</u>	<u>117,123</u>
Total liabilities	2,281,509	2,384,416
Net assets	<u>1,507,439</u>	<u>1,345,633</u>
	<u>\$ 3,788,948</u>	<u>\$ 3,730,049</u>

The accompanying notes are an integral part of these financial statements.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b><u>OPERATING REVENUES</u></b>		
Premiums earned	\$ 12,738,277	\$ 12,742,605
Total operating revenues	<u>12,738,277</u>	<u>12,742,605</u>
<b><u>OPERATING EXPENSES</u></b>		
Claims expense (note 3)	11,169,249	10,060,186
Reinsurance premiums and commission (note 2)	729,993	716,892
Service agent fees (note 2)	656,796	616,755
Administrative fees (note 2)	13,273	13,034
Miscellaneous	<u>15,169</u>	<u>30,457</u>
Total operating expenses	<u>12,584,480</u>	<u>11,437,324</u>
<b><u>OPERATING INCOME</u></b>	153,797	1,305,281
<b><u>NON-OPERATING INCOME</u></b>		
Investment income, net (note 4)	<u>8,009</u>	<u>35,006</u>
<b><u>CHANGE IN NET ASSETS</u></b>	161,806	1,340,287
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>1,345,633</u>	<u>5,346</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 1,507,439</u></u>	<u><u>\$ 1,345,633</u></u>

The accompanying notes are an integral part of these financial statements.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Operating income	\$ 153,797	\$ 1,305,281
Adjustments to reconcile operating income to net cash provided by operations:		
Change in reinsurance receivable	38,539	(597,568)
Change in receivables	375,265	(219,201)
Change in unpaid claims liability	(247,000)	686,000
Change in accounts payable and other liabilities	<u>135,773</u>	<u>(118,140)</u>
Net cash provided by operating activities	<u>456,374</u>	<u>1,056,372</u>
Cash flows from investing activities:		
Investment interest received	<u>8,009</u>	<u>35,006</u>
Net cash provided by investing activities	<u>8,009</u>	<u>35,006</u>
Cash flows from financing activities:		
Change in due to affiliates	<u>8,320</u>	<u>12,081</u>
Net cash provided by financing activities	<u>8,320</u>	<u>12,081</u>
Net change in cash	472,703	1,103,459
Cash, beginning of year	<u>2,477,411</u>	<u>1,373,952</u>
Cash, end of year	<u><u>\$ 2,950,114</u></u>	<u><u>\$ 2,477,411</u></u>

The accompanying notes are an integral part of these financial statements.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES**

**(a) *Background and Financial Statement Presentation***

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the State of Louisiana are eligible to participate. The Accident and Health Fund's (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the Board of the Fund after consultation with actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims.

Louisiana Municipal Association (LMA) is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for the Fund.

Risk Management, Inc. (RMI) is a third-party service agent primarily for LMRMA insurance funds. RMI, a Louisiana Corporation, is a wholly-owned subsidiary of LMA.

Louisiana Municipal Reserve Fund Agency (LMRFA) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of the LMRFA is vested in the Executive Board of LMA. Effective January 1, 2003, LMRFA began providing reinsurance for the Fund.

As of December 31, 2009 and 2008, there were 54 and 55 participating municipalities in the Fund with a total number of participants of 1,983 and 1,889, respectively.

The various LMRMA Funds, LMA and RMI are all affiliated through common membership and management control. Although all of these entities are related parties, their various net assets are available only to each individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 10 and GASB Statement No. 14.

**(b) *Basis of Accounting***

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. The Fund applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements. Since the business of the Fund is essentially that of an insurance company, having a business cycle greater than one year, the statements of net assets are not presented in a classified format.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(c) *Premium Income and Accounts Receivable***

Premiums are recognized as income over the term of the policies as they become earned on a pro rata basis. Any adjustments to annual premiums are considered to be a change in estimate and are recognized in the year they become known.

The Fund considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made. Collections on accounts previously written off are included in other income when received.

**(d) *Operating / Non-Operating Revenue and Expense***

Operating revenues consist of member premiums as these revenues are generated from the Fund's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses, which are ancillary to the Fund's statutory purpose, are classified as non-operating.

**(e) *Unpaid Claims Liability***

The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claim liability does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expenses in the period in which they are made. The carrying amount of liabilities for claims losses and claims expenses is presented at the estimated claims amounts in the financial statements.

**(f) *Cash and Cash Equivalents***

For the purposes of the statements of cash flows, cash includes amounts in demand deposit accounts with banks, and money markets and repurchase agreements, which are usually purchased with maturities of 90 days or less or are reinvested continuously.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(g) *Excess Reinsurance***

The Fund uses excess reinsurance to reduce its exposure to large losses on insured events. Further description of the reinsurance coverage is described in Note 5. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the risks reinsured. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. Claims expense consists of claims incurred during the current year, adjustments to the accounting estimate of prior years' claims expense and a reduction for claims covered by the reinsurer in accordance with the reinsurance policy. Reinsurance receivable represents claims paid in excess of excess retention. The Fund considers reinsurance receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established.

**(h) *Income Taxes***

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

**(i) *Use of Estimates***

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

**(j) *Reclassifications***

Certain items in the 2008 financial statements have been reclassified to be comparative to the 2009 presentation.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**NOTES TO FINANCIAL STATEMENTS**

**2. RELATED PARTY TRANSACTIONS**

LMA, RMI and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees incurred by the Fund for these services and related balances owed are as follows:

	<u>2009</u>	<u>2008</u>
Expenses and current fee structure:		
Administrative fees – LMA (\$.60 per person per month)	\$ 13,273	\$ 13,034
Service agent fees – RMI (\$29.00 in 2009; \$27.75 in 2008 for health and \$1.20 for dental participant in 2009 and 2008)	\$ 656,796	\$ 616,755
Reinsurance premium expense – LMRFA (\$28.32 in 2009 and 2008 per person for health participants)	\$ 614,300	\$ 603,275
Reinsurance commission – RMI (\$5.23 in 2009 and 2008 per health participant)	\$ 115,693	\$ 113,617
Due to affiliates:		
LMA	\$ 1,190	\$ 1,134
RMI	124,253	115,989
	<u>\$ 125,443</u>	<u>\$ 117,123</u>

The Board of Trustees has authorized up to \$500,000 in borrowings, which are unsecured and non-interest bearing from the LMRFA. During 2009 and 2008, there are no amounts drawn on this line of credit. For the years ended December 31, 2009 and 2008, the Fund recorded and offset related claims expense \$1,345,807 and \$1,101,303, respectively received from the LMRFA as it relates to the reinsurance arrangements (see note 5). Of these amounts, \$715,570 and \$754,109 are receivable as of December 31, 2009 and 2008, respectively.

**3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY**

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31:

	<u>2009</u>	<u>2008</u>
	<u>(Amounts in thousands)</u>	
Unpaid claims and claims adjustment expenses liability, beginning of year	\$ 2,123	\$ 1,437
Incurred claims and claims adjustment expense-provision for insured events	11,169	10,060
Less payments – claims and claims adjustment expenses	<u>(11,416)</u>	<u>(9,374)</u>
Unpaid claims and claims adjustment expenses liability, end of year	<u>\$ 1,876</u>	<u>\$ 2,123</u>

Settled claims have not exceeded aggregate insurance coverages in any of the past two fiscal years.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**NOTES TO FINANCIAL STATEMENTS**

**4. CASH AND CASH EQUIVALENTS**

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by these funds shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund is in compliance with these revised provisions as of and during the years ended December 31, 2009 and 2008. All demand deposits are insured or collateralized by pledged securities held by an agent in the name of the Fund.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions.

Net investment income for the years ended December 31, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Interest income	<u>\$ 8,009</u>	<u>\$ 35,006</u>

**5. REINSURANCE POLICY COVERAGE**

The Fund and its excess reinsurer represent a cooperative program for group funding and risk management of accident and health claims of participating Louisiana municipalities. Although premiums billed to the participants are determined on an actuarial basis, the ultimate liability for claims remains with the members/participants, and the Fund has the authority to assess the members/participants to fund any deficits incurred.

Since January 1, 2003, the Fund has obtained reinsurance from LMRFA to provide the following coverage:

- Item I: Annual aggregate in excess of 125% of annual earned normal premium.
- Item II: \$900,000 specific losses in excess of \$100,000 each and every loss.

Amounts paid to LMRFA for reinsurance were obtained at a discounted rate compared to what was provided by a commercial insurer years prior to 2003. See Note 2 for details on amounts paid to and recovered from LMRFA for reinsurance arrangements.

**6. SUBSEQUENT EVENTS**

Management has evaluated events through the date that the financial statements were available to be issued, June 8, 2010 and determined that there were no events that required disclosure.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Officers and Trustees  
Louisiana Municipal Risk Management Agency  
Accident and Health Fund  
Baton Rouge, Louisiana

We have audited the financial statements of Louisiana Municipal Risk Management Agency – Accident and Health Fund (the Fund), as of and for the year ended December 31, 2009, and have issued our report thereon dated June 8, 2010. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of the Louisiana Municipal Risk Management Agency – Accident and Health Fund and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 8, 2010

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**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

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**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

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## INDEPENDENT AUDITORS' REPORT

Officers and Trustees  
Louisiana Municipal Risk Management Agency  
Public Liability Fund  
Baton Rouge, Louisiana

We have audited the accompanying statements of net assets of Louisiana Municipal Risk Management Agency – Public Liability Fund (a quasi-public organization) (the Fund) as of December 31, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Public Liability Fund as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 4 and the schedule ten-year claims development information on page 17, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 8, 2010 on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audits.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 8, 2010

## **LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - PUBLIC LIABILITY FUND**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS** **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Risk Management Agency – Public Liability Fund's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2009 and 2008. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

#### **Financial Highlights**

- The assets of the Fund exceeded its liabilities at December 31, 2009 by \$4,359,544 compared to \$4,539,201 as of December 31, 2008, which is a 4% decrease.
- At December 31, 2009, the Fund's assets totaled \$19,483,646, which consisted primarily of investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations and accounts receivable. At December 31, 2008, the Fund's assets totaled \$19,687,601 and were comprised of similar types of assets.
- The Fund reported earned premiums of \$11,365,807 and \$11,177,393 during the years ended December 31, 2009 and 2008, respectively.
- Net assets decreased by \$179,657 during the year ended December 31, 2009 compared to an increase of \$643,673 during 2008.
- At the end of the current fiscal year, the Fund's net assets totaled \$4,359,544 or 37% of current year expenses.

#### **Overview of the Financial Statements**

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the financial statements, which explain some of the information in the financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by private sector. The Statements of Net Assets include all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). These statements also provide the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. These statements measure the success of the Fund's operations over the year and can be used to determine whether the Fund has successfully recovered all of its costs through its premium and investment income, profitability and credit worthiness. The final required financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - PUBLIC LIABILITY FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Overview of the Financial Statements (continued)**

The preparation of these financial statements requires the utilization of significant estimates. Changes in estimates, as well as the differences in actual results and estimated amounts, will be included in the Statements of Revenues, Expenses and Changes in Net Assets as these circumstances become known.

**Financial Analysis of the Fund**

The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the Net Assets of the Fund and changes in them. The net assets (difference between assets and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net assets are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, healthcare costs, judicial environment, and new or changed government legislation.

**Condensed Statements of Net Assets at December 31,:**

	<u>2009</u>	<u>2008</u>
Total assets	\$ 19,483,646	\$ 19,687,601
Total liabilities	<u>15,124,102</u>	<u>15,148,400</u>
Net assets	<u>\$ 4,359,544</u>	<u>\$ 4,539,201</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets decreased approximately 1% and consist primarily of investments in U.S. Government and Agency debt securities. Total liabilities decreased approximately .16% due to an increase in unpaid claims liabilities resulting from increases in paid and incurred losses for the year ended December 31, 2009.

**Condensed Statements of Revenues and Expenses and Changes in Net Assets  
for the Years Ended December 31,:**

	<u>2009</u>	<u>2008</u>
Operating revenues	\$ 11,365,807	\$ 11,177,393
Operating expenses	<u>11,890,043</u>	<u>11,480,979</u>
Operating income (loss)	(524,236)	(303,586)
Non-operating income	<u>344,579</u>	<u>947,259</u>
Change in net assets	<u>\$ (179,657)</u>	<u>\$ 643,673</u>

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - PUBLIC LIABILITY FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Financial Analysis of the Fund (continued)**

During the year ended December 31, 2009, the Fund reported premium income of \$11,365,807 and investment income of \$344,579. Premiums increased during 2009 due to annual increases. The Fund reported total expenses of \$11,890,043 which consisted primarily of claims, reinsurance premiums, administrative and service agent fees. Claims expense increased in the current year primarily as a result of higher losses as it relates to both paid and incurred claims. The Fund experienced a net decrease in net assets of \$179,657 for the current year. See Statements of Revenues, Expenses and Changes in Net Assets on page 6 of this report.

**Requests for Information**

This financial report is designed to provide members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Risk Management Agency - Public Liability Fund, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**STATEMENTS OF NET ASSETS**  
**DECEMBER 31, 2009 AND 2008**

**ASSETS**

	<u>2009</u>	<u>2008</u>
Investments (note 4)	\$ 15,803,521	\$ 17,047,908
Accounts receivable, net	1,845,938	1,835,701
Reinsurance receivable (note 3)	1,530,341	413,703
Deductibles receivable	201,117	284,431
Accrued interest receivable	<u>102,729</u>	<u>105,858</u>
 Total assets	 <u>\$ 19,483,646</u>	 <u>\$ 19,687,601</u>

**LIABILITIES AND NET ASSETS**

Liabilities:		
Unpaid claims liability (note 3)	\$ 12,386,000	\$ 12,382,000
Unearned premiums	2,420,360	2,373,330
Due to affiliates - net (note 2)	315,217	390,139
Accrued expenses	<u>2,525</u>	<u>2,931</u>
 Total liabilities	 15,124,102	 15,148,400
 Net assets	 <u>4,359,544</u>	 <u>4,539,201</u>
	 <u>\$ 19,483,646</u>	 <u>\$ 19,687,601</u>

The accompanying notes are an integral part of these financial statements.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b><u>OPERATING REVENUES</u></b>		
Premiums earned	\$ 11,365,807	\$ 11,177,393
Total operating revenues	<u>11,365,807</u>	<u>11,177,393</u>
<b><u>OPERATING EXPENSES</u></b>		
Claims expense (note 3)	8,623,764	8,447,462
Reinsurance premiums (note 2)	1,692,650	1,620,335
Administrative fees (note 2)	677,155	677,155
Service agent fees (note 2)	701,339	701,339
Bad debt expense	158,630	-
Miscellaneous	<u>36,505</u>	<u>34,688</u>
Total operating expenses	<u>11,890,043</u>	<u>11,480,979</u>
<b><u>OPERATING LOSS</u></b>	(524,236)	(303,586)
<b><u>NON-OPERATING INCOME</u></b>		
Investment income, net (note 4)	<u>344,579</u>	<u>947,259</u>
<b><u>CHANGE IN NET ASSETS</u></b>	(179,657)	643,673
<b><u>NET ASSETS - BEGINNING OF YEAR</u></b>	<u>4,539,201</u>	<u>3,895,528</u>
<b><u>NET ASSETS - END OF YEAR</u></b>	<u>\$ 4,359,544</u>	<u>\$ 4,539,201</u>

The accompanying notes are an integral part of these financial statements.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Operating loss	\$ (524,236)	\$ (303,586)
Adjustments to reconcile operating loss		
to net cash (used in) provided by operations:		
Change in receivables	(1,043,561)	(463,364)
Change in unpaid claims liability	4,000	2,566,000
Change in accrued expenses, unearned		
premiums and due to affiliates	(28,298)	335,867
Net cash (used in) provided by operating activities	<u>(1,592,095)</u>	<u>2,134,917</u>
Cash flows from investing activities:		
Purchases of investments	(4,265,512)	(6,430,656)
Proceeds from sales and maturities of investments	5,370,472	3,738,340
Investment income received	<u>487,135</u>	<u>557,399</u>
Net cash provided by (used in) investing activities	<u>1,592,095</u>	<u>(2,134,917)</u>
Net change in cash	-	-
Cash, beginning of year	<u>-</u>	<u>-</u>
Cash, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES**

**(a) *Background and Financial Statement Presentation***

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the State of Louisiana are eligible to participate. The LMRMA Public Liability Fund's (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the Board of the Fund after consultation with actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims. As of December 31, 2009 and 2008, there were 245 and 251 participating municipalities, respectively.

Louisiana Municipal Association (LMA) is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for the Fund.

Risk Management, Inc. (RMI) is a third-party service agent primarily for LMRMA insurance funds. RMI, a Louisiana Corporation, is a wholly-owned subsidiary of LMA.

Louisiana Municipal Reserve Fund Agency (LMRFA) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of the LMRFA is vested in the Executive Board of LMA. LMRFA reinsures the LMRMA Public Liability Fund.

The various LMRMA and LMRFA Funds, LMA and RMI are all affiliated through common membership and management control. Although all of these entities are related parties, their various net assets are available only to each individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 10 and GASB Statement No. 14.

**(b) *Basis of Accounting***

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. The Fund applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Since the business of the Fund is essentially that of an insurance company having a business cycle greater than one year, the statements of net assets are not presented in a classified format.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(c) *Investments***

Investments are reported at estimated fair value except for short-term and money market investments, consisting primarily of U.S. Treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized gains and losses and changes in unrealized gains and losses on investments recorded at fair value are included in investment income. Investments include money market accounts, repurchase agreements, U.S. Government Agency obligations and U.S. Treasury securities and are held for long-term purposes.

**(d) *Premium Income and Receivables***

Premiums are recognized as income over the life of the policies as they become earned. Any adjustments to annual premiums are considered to be a change in estimate and are recognized in the year they become known. Acquisition costs associated with new and renewal contracts are immaterial to the financial statements and are expensed when incurred.

The Fund considers accounts receivable, reinsurance receivable, and deductibles receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts or deductibles become uncollectible, they will be charged to operations when that determination is made. Collections on accounts previously written off are included in other income when received.

**(e) *Operating / Non-Operating Revenue and Expenses***

Operating revenues consist of member premiums as these revenues are generated from the Fund's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses which are ancillary to the Fund's statutory purpose are classified as non-operating.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) *Unpaid Claims Liability***

The Fund provides liability coverage to members for claims incurred during the benefit period regardless of when the claims are reported to the Fund. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount, particularly for coverages such as public liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience.

Adjustments to claims liabilities are charged or credited to claims expense in the periods in which they are made. The carrying amount of liabilities for claims losses and claims expense are presented at present value in the financial statements.

**(g) *Statements of Cash Flows***

For the purposes of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Because certificates of deposit, money markets and repurchase agreements are usually purchased with maturities of 90 days or more, they are classified as investments.

**(h) *Excess Reinsurance***

The Fund uses excess reinsurance to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the insured risks. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers.

**(i) *Income Taxes***

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**

1. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(j) *Use of Estimates*

Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, fair values of investments and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

(k) *Reclassifications*

Certain items in the 2008 financial statements have been reclassified to be comparative to the 2009 presentation.

2. **RELATED PARTY TRANSACTIONS**

LMA, RMI and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees for these services are based on a percentage of the earned normal premiums (ENP) for the years ended December 31, 2009 and 2008. The respective percentages of the respective earned normal premiums and earned standard premiums are as follows:

	<u>2009</u>	<u>2008</u>
Expenses (and current fee structure):		
Administrative fee – LMA (7.25% of ENP)	\$ <u>677,155</u>	\$ <u>677,155</u>
Service agent - RMI (7.00% of ENP)	\$ <u>701,339</u>	\$ <u>701,339</u>
Reinsurance – LMRFA (16.75% of ENP)	\$ <u>1,692,650</u>	\$ <u>1,620,335</u>
Reinsurance recoveries from LMRFA	\$ <u>3,468,518</u>	\$ <u>3,776,211</u>
Due to (from) affiliates:		
LMA	\$ 227,155	\$ 437,156
RMI	25,467	12,649
LMRFA	(29,665)	(59,666)
LMRMA Worker's Compensation Fund	92,260	-
	\$ <u>315,217</u>	\$ <u>390,139</u>

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**

**3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY**

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
	<u>(Amounts in thousands)</u>	
Liability for unpaid losses at beginning of year, gross	\$ 29,298	\$ 22,455
Less: reinsurance recoverables	<u>16,916</u>	<u>12,639</u>
Liability for unpaid losses at beginning of year, net	<u>12,382</u>	<u>9,816</u>
Net incurred related to:		
Current year	5,516	5,969
Prior years	<u>3,108</u>	<u>2,478</u>
Total incurred	<u>8,624</u>	<u>8,447</u>
Net paid related to:		
Current year	787	954
Prior years	<u>7,833</u>	<u>4,927</u>
Total paid	<u>8,620</u>	<u>5,881</u>
Liability for unpaid losses at end of year, gross	30,236	29,298
Less: reinsurance recoverables	<u>17,850</u>	<u>16,916</u>
Liability for unpaid losses at end of year, net	<u>\$ 12,386</u>	<u>\$ 12,382</u>

In addition to the unpaid claims covered by the Fund's reinsurer (LMRFA), there are \$1,530,341 and \$413,703 of paid claims which are recoverable from the reinsurer at December 31, 2009 and 2008, respectively.

During 2009 and 2008, the Fund experienced overall unfavorable development on unpaid claims liabilities established in prior years related primarily to certain adverse judicial proceedings as well as an overall increase in incurred claims. In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data, and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2009 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2009 will not vary from the above estimates, and such difference could be significant.

The Fund's claims payable have been discounted for December 31, 2009 and 2008, based on the Fund's anticipated payout patterns and a discount rate assumption of 5.0% which management expects to approximate the interest earnings over the payout period. The effect of the reserve discounts was \$1,115,000 and \$926,000 at December 31, 2009 and 2008, respectively.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEPOSITS AND INVESTMENTS**

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution in question. In regard to deposits and investments, the Fund was in compliance with these revised provisions as of and during the years ended December 31, 2009 and 2008.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. Included in investments are money market accounts and repurchase agreements. The Fund policy is to wire-transfer cash as needed from investments to support disbursements. Consequently, a zero cash balance is maintained.

Statement Number 40 of the Governmental Accounting Standards Board (GASB Statement No. 40), *Deposits and Investment Risk Disclosures* established and modified disclosure requirements related to investment risk. This section describes the various types of investment risk and the Fund's exposure to each type.

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2009 and 2008:

<u>Investment Type</u>	<u>2009</u>		<u>2008</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Government mortgage- backed securities	\$ 3,689,487	\$ 3,533,649	\$ 3,784,810	\$ 3,716,187
U.S. Agency debt obligations	6,294,921	6,011,755	\$ 5,779,485	\$ 5,272,666
Money market funds	<u>5,819,113</u>	<u>5,819,113</u>	<u>7,483,613</u>	<u>7,483,613</u>
TOTAL	<u>\$ 15,803,521</u>	<u>\$ 15,364,517</u>	<u>\$ 17,047,908</u>	<u>\$16,472,466</u>

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEPOSITS AND INVESTMENTS (continued)**

**Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured, or are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Fund's name.

The Fund's investments in government debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by counterparty. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission.

**Credit Risk**

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a tool with which to assess credit risk on debt obligations. U.S. Government debt securities are not required to be rated. The following table is provided for use in assessing the Fund's exposure to credit risk as of December 31, 2009 and 2008.

Standard and Poor's Rating	Estimated Fair Value 2009	Estimated Fair Value 2008
Money market funds	\$ 5,819,113	\$ 7,483,613
U.S. Government securities		
Not rated	3,689,487	3,784,853
Rated AAA	<u>6,294,921</u>	<u>5,779,442</u>
Total	<u>\$ 15,803,521</u>	<u>\$ 17,047,908</u>

Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund has no investments in any one issuer that represented 5% or more of total investments, other than the U.S. Government.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEPOSITS AND INVESTMENTS (continued)**

**Interest Rate Risk**

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2009:

<b>INVESTMENT MATURITIES (in years)</b>					
<b><u>Investment Type</u></b>	<b><u>Estimated Fair Value</u></b>	<b><u>Less than 1</u></b>	<b><u>1-5</u></b>	<b><u>5-10</u></b>	<b><u>Greater than 10</u></b>
Money market funds	\$ 5,819,113	\$ 5,819,113	\$ -	\$ -	\$ -
U.S. Government mortgage-backed securities	3,689,487	2,496	1,428,423	1,647,905	610,663
U.S. Agency debt obligations	<u>6,294,921</u>	<u>-</u>	<u>4,027,564</u>	<u>2,267,357</u>	<u>-</u>
	<u>\$ 15,803,521</u>	<u>\$ 5,821,609</u>	<u>\$ 5,455,987</u>	<u>\$ 3,915,262</u>	<u>\$ 610,663</u>

Net investment income for the years ended December 31, 2009 and 2008 consists of the following:

	<b><u>2009</u></b>	<b><u>2008</u></b>
Interest income	\$ 467,881	\$ 544,955
Realized gains (losses) – net	33,137	14,358
Unrealized gains (losses) arising during the year - net	<u>(156,439)</u>	<u>387,946</u>
	<u>\$ 344,579</u>	<u>\$ 947,259</u>

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**

**5. REINSURANCE POLICY COVERAGE**

During the years ended December 31, 2009 and 2008, LMRFA provided reinsurance to LMRMA Public Liability Fund with the following limits:

- Item I: \$5,000,000 annual aggregate in excess of 65% of earned normal premium
- Item II: Each and every loss in excess of \$100,000 each and every loss

The Fund and LMRFA represent a cooperative program for group funding and risk management of public liability claims of participating Louisiana municipalities. Although premiums billed to the participants are determined on an actuarial basis, ultimate liability for claims remains with the participants.

Prior to 1993, Louisiana law limited the liability of the municipalities to \$500,000 per occurrence. During 1993, the Louisiana Supreme Court revoked this limit. The above "specific reinsurance limits" for the Public Liability Fund cover claims up to \$500,000. As of November 1, 1995, the statutory liability increased to \$750,000 from \$500,000. The Fund's coverage remains unchanged.

The following are condensed Statements of Net Assets for LMRFA at December 31:

	<u>2009</u>	<u>2008</u>
Assets	\$ 43,110,688	\$ 42,982,006
Liabilities	<u>35,598,756</u>	<u>29,933,750</u>
Net Assets	<u>\$ 7,511,932</u>	<u>\$ 13,048,256</u>

**6. SUBSEQUENT EVENTS**

Management has evaluated events through the date that the financial statements were available to be issued, June 8, 2010 and determined that there were no events that required disclosure.

**SUPPLEMENTAL INFORMATION**

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**  
**SCHEDULE OF TEN-YEAR CLAIMS DEVELOPMENT INFORMATION**  
**CLAIMS EXPENSE AND RE-ESTIMATED CLAIM ADJUSTMENT EXPENSE**

**DECEMBER 31, 2009**

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and claims expense (net of loss assumed by reinsurers) incurred by the Fund as of the end of 2009 and as of the end of each of the last nine years.

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
	(in thousands)									
ENP and investment income	\$ 11,711	\$ 12,125	\$ 11,275	\$ 9,491	\$ 9,067	\$ 8,992	\$ 8,147	\$ 7,236	\$ 6,547	\$ 6,724
Operating costs unallocated	3,266	3,034	3,189	3,081	3,937	3,907	3,791	3,253	2,853	2,766
Estimated incurred claims and claims expense, end of policy year	6,097	5,307	4,959	4,833	4,902	6,876	4,542	4,686	3,753	2,999
Paid (cumulative) as of:										
End of policy year	787	954	928	478	789	930	697	693	578	499
One year later	-	3,532	2,323	1,253	1,941	2,241	1,826	1,496	1,358	1,079
Two years later	-	-	4,555	2,111	3,534	3,831	2,889	2,940	2,450	1,804
Three years later	-	-	-	3,039	4,361	4,735	3,838	3,549	2,827	2,357
Four years later	-	-	-	-	5,027	5,544	4,271	4,000	3,085	2,745
Five years later	-	-	-	-	-	5,834	4,480	4,265	3,292	2,872
Six years later	-	-	-	-	-	-	4,988	4,433	3,416	2,657
Seven years later	-	-	-	-	-	-	-	4,562	3,518	2,671
Eight years later	-	-	-	-	-	-	-	-	3,611	2,706
Nine years later	-	-	-	-	-	-	-	-	-	2,707
Re-estimated incurred claims and claims expense:										
End of policy year	6,097	5,307	4,959	4,833	4,902	6,876	4,542	4,686	3,753	2,999
One year later	-	8,682	5,706	4,272	5,300	6,144	5,151	4,245	3,812	3,225
Two years later	-	-	7,294	4,023	5,338	6,069	4,697	4,613	3,854	3,062
Three years later	-	-	-	4,369	5,570	5,954	5,009	4,465	3,678	3,114
Four years later	-	-	-	-	5,741	6,404	4,939	4,478	3,548	3,228
Five years later	-	-	-	-	-	6,360	4,451	4,507	3,601	3,095
Six years later	-	-	-	-	-	-	5,237	4,451	3,624	2,855
Seven years later	-	-	-	-	-	-	-	4,720	3,686	2,773
Eight years later	-	-	-	-	-	-	-	-	3,712	2,781
Nine years later	-	-	-	-	-	-	-	-	-	2,755
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	3,375	2,335	(464)	839	(516)	695	34	(41)	(244)

See accompanying independent auditors' report.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Officers and Trustees  
Louisiana Municipal Risk Management Agency  
Public Liability Fund

We have audited the financial statements of Louisiana Municipal Risk Management Agency – Public Liability Fund (the Fund), as of and for the year ended December 31, 2009, and have issued our report thereon dated June 8, 2010. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Fund's financial statements will not be prevented, or detected and corrected in a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph was not designed to identify all deficiencies in internal control that we consider to be material weaknesses, as defined above.

**Financial Reporting Process**

Management typically reports the Fund's interim financial activity essentially on a cash basis. The annual audited financial statements include significant adjustments to report the Fund's financial statements on an accrual basis in accordance with U.S. generally accepted accounting principles. Pursuant to the year end and audit processes, significant adjustments are required to convert the financial statements from the cash method of accounting to the accrual method of accounting.

The nature of insurance programs involves significant risks and uncertainties that we believe should be reported and monitored more often than annually. The year-end financial statement process indicated significant adverse claims development and financial losses that should be measured more frequently than once a year. Management does monitor various measures not included in the financial statements but reports financial activities and financial position of the Fund on a cash basis which is not intended to capture important information inherent in accrual basis financial.

As we have reported in prior years, we believe management should implement additional financial reporting procedures to provide interim reporting on an accrual basis of accounting as opposed to essentially a cash basis of accounting. This can be accomplished by expanding financial processes related to premium recognition as well as developing processes for estimating and recording interim claims loss reserves and related expenses. We believe these changes will provide management and the Board with more timely and meaningful financial information to monitor the Fund's financial performance and position.

#### *Loss Reserve Setting and Development*

The Fund has experienced considerable variability in the reserve setting process during recent years which have had a significant impact on the Fund's financial statements. This variability has resulted in significant underwriting losses which stem from the following internal control matters:

- The Fund's administrator implemented a new claims administration system to more efficiently administer and adjudicate the Fund's insurance program a couple of years ago. As is often the case with system conversions, several sources of data key to estimating and development of reasonable and reliable loss reserves liabilities were inconsistent and required extensive analysis. These factors contributed to less reliability and more variability in the overall loss reserve estimation process.
- Our review of setting case reserves for individual claims files indicated significant increases in case reserves in recent years. These increases were not isolated to a particular category of claim but appear to be pervasive throughout the claims reserving process. Case reserves should always be set in amounts reasonably expected to reflect the loss incurred based on assessment of the loss information available at the time and provide for inherent uncertainty.

The Fund's loss data should be continually evaluated to better insure sufficient and reliable information is available to estimate loss reserves with reasonable accuracy and consistency. Sufficient industry data and Fund specific information should also be regularly evaluated to assist in the development of fair and reasonable loss reserves and premium rates to diversify the risks among for the Fund's membership. Management may also want to consider having a third-party review of the policies and practices of the claims department to ensure that best practices are being adhered with and stay with current industry trends.

#### *Reconciliation Processes*

During the performance of our audit process, we noted that certain general ledger and other subsidiary ledgers were not reconciled, or not reconciled in a timely manner, and adjustments recorded as necessary. Accounting tasks such as reconciling and adjusting accounts play a key role in proving the accuracy of accounting data and ensuring that the check and balances among segregated duties are functioning. Areas we noted these conditions included investment accounting, premium receipts, and accounting for other receivables including deductibles.

We also understand that changes in personnel occurred during the year which may have contributed to these conditions. We believe that formalizing accounting policies and procedures manuals could help mitigate these types of situations in the future.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first

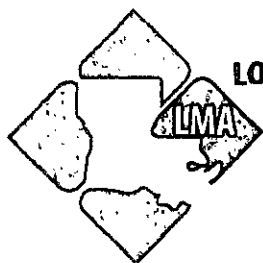
paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are not material weaknesses.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, Louisiana Municipal Risk Management Agency – Public Liability Fund, others within the entity, and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Postlethwaite & Nettville*  
Baton Rouge, Louisiana  
June 8, 2010



## LOUISIANA MUNICIPAL ASSOCIATION

a unified voice for municipalities since 1926

President  
**Susan Menard**  
Mayor, Cankton

First Vice President  
**Bobby R. Washington**  
Mayor, Cullen

Second Vice President  
**Glenn L. Brasseaux**  
Mayor, Carencro

Executive Director  
**Tom Ed McHugh**

Daryl G. Purpera  
Legislative Auditor  
P.O. Box 94397  
Baton Rouge, Louisiana 70804-9397

Dear Sir,

In the Financial Statements for the Louisiana Municipal Risk Management Agency Workers' Compensation Fund, Public Liability Fund, and Reserve Fund, for the year ended December 31 2009, our auditors Postlethwaite & Netterville, noted a significant deficiency in internal control over our financial reporting in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. The deficiencies were described as follows:

*Financial Reporting Process* – The annual audited financial statements include significant adjustments to report the Funds' financial statements on an accrual basis in accordance with U.S. generally accepted accounting principals. Management should implement additional financial reporting procedures to provide interim reporting on an accrual basis of accounting as opposed to essentially a cash basis of accounting. This can be accomplished by expanding financial processes related to premium recognition as well as developing processes for estimating and recording interim loss reserves and related expenses.

*Loss Reserve Setting and Development* – The Fund's loss data should be continually evaluated to better insure sufficient and reliable information is available to estimate loss reserves with reasonable accuracy and consistency. Sufficient industry data and Fund specific information should also be regularly evaluated to assist in the development of fair and reasonable loss reserves and premium rates to diversify the risks among the Fund's membership.

*Reconciliation Process* – During the performance of our audit process, we noted that certain general ledger and other subsidiary ledgers were not reconciled, or not reconciled in a timely manner, and adjustments recorded as necessary. Accounting tasks such as reconciling and adjusting accounts

play a key role in proving the accuracy of accounting data and ensuring that the check and balances among segregated duties are functioning. Areas we noted these conditions included investment accounting, premium receipts, and accounting for other receivables including deductibles.

When the audit results were presented to the Board of Directors at the June 16, 2010, meeting, these deficiencies were noted.

*Financial Reporting Process* -The deficiencies as noted will be eliminated by having the Chief Financial Officer of the Louisiana Municipal Association make the adjustments to the accounts receivable and unearned premium accounts to properly reflect the accrual basis of the receivables/unearned premiums as well as related revenue. Reinsurance receivables will also be adjusted by the Chief Financial Officer.

*Loss Reserve Setting and Development* -The Fund's loss data will be continually evaluated to better insure sufficient and reliable information is available to estimate loss reserves with reasonable accuracy and consistency. New procedures will be implemented for estimating and recording claims loss reserves and related expenses. An additional report demonstrating reserve adjustments for all fund years will be provided to the board on a quarterly basis.

*Reconciliation Process*- In mid 2009, LMA experienced turnover in key accounting personnel, and is currently in the process of reorganizing the Accounting Department and training new personnel. This reorganization and addition of accounting staff will ensure the implementation of additional procedures to mitigate problems in the future. Investment accounts, premium receipts, and deductibles will be reconciled monthly. Formalized accounting policies and procedures are also being developed to mitigate these problems in the future.

Very truly yours,



Tom Ed McHugh  
Executive Director  
Louisiana Municipal Association

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**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

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**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

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**INDEPENDENT AUDITORS' REPORT**

Officers and Trustees  
Louisiana Municipal Risk Management Agency  
Workers' Compensation Fund  
Baton Rouge, Louisiana

We have audited the accompanying statements of net assets of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund (a quasi-public organization) (the Fund) as of December 31, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 4 and the schedule of ten-year claims development information on page 17 is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 8, 2010, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audits.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 8, 2010

# **LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - WORKERS' COMPENSATION FUND**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS** **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Risk Management Agency -- Workers' Compensation Fund's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2009 and 2008. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

### **Financial Highlights**

- The assets of the Fund exceeded its liabilities at December 31, 2009 by \$30,030,255 compared to \$28,044,077 as of December 31, 2008, which is a 7% increase over the previous year.
- At December 31, 2009, the Fund's assets totaled \$45,415,018, which consisted primarily of investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations and receivables. At December 31, 2008 the Fund's assets totaled \$42,331,365 and were comprised of similar types of assets.
- The Fund reported gross earned premiums of \$10,301,080 and \$7,858,889 during the years ended December 31, 2009 and 2008, respectively, and an increase in net assets of \$1,986,178 and \$208,610 during the years ended December 31, 2009 and 2008, respectively.
- At the end of the current fiscal year, the Fund's net assets totaled \$30,030,255 or 1.95 times the Fund's liabilities. The Funds premiums earned during 2009 were approximately 34% of its net assets at December 31, 2009.

### **Overview of the Financial Statements**

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the basic financial statements, which explain some of the information in the basic financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by private sector. The Statements of Net Assets include all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. These statements measure the success of the Fund's operations over the year and can be used to determine whether the Fund has successfully recovered all its costs through its premiums and investment income, profitability and credit worthiness. The final required basic financial statement is the Statement of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - WORKERS' COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Overview of the Financial Statements (continued)**

The preparation of these basic financial statements requires the utilization of significant estimates. Changes in estimates as well as the differences in actual results and estimated amounts will be included in the Statement of Revenues, Expenses and Changes in Net Assets as these circumstances become known.

**Financial Analysis of the Fund**

The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the Net Assets of the Fund and changes in them. Net Assets (difference between assets and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's Net Assets are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, healthcare costs, judicial environment, and new or changed government legislation.

**Condensed Statements of Net Assets at December 31,:**

	<u>2009</u>	<u>2008</u>
Total assets	\$ 45,415,018	\$ 42,331,365
Total liabilities	<u>15,384,763</u>	<u>14,287,288</u>
Net assets	<u>\$ 30,030,255</u>	<u>\$ 28,044,077</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets increased approximately 7% and consist primarily of U.S. Government investments and securities. Total liabilities increased approximately 7% mainly due to increases in unpaid claims liabilities. Net assets increased approximately 10% from the prior year.

**Condensed Statements of Revenues and Expenses and Changes in Net Assets  
for the Years Ended December 31,:**

	<u>2009</u>	<u>2008</u>
Operating revenues	\$ 10,301,080	\$ 7,858,889
Operating expenses	<u>9,179,956</u>	<u>10,929,209</u>
Operating income (loss)	1,121,124	(3,070,320)
Non-operating income	<u>865,054</u>	<u>3,278,930</u>
Change in net assets	<u>\$ 1,986,178</u>	<u>\$ 208,610</u>

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - WORKERS' COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Financial Analysis of the Fund (continued)**

Premium revenues increased \$2,442,191 or 31% due primarily to annual wage rate as well as premium increases with participating municipalities as well as the addition of a large municipality to the fund in the current year that was previously self-insured. Investment income decreased in the current year as a result of unfavorable changes in the estimated fair value of the investment portfolio. During the year ended December 31, 2008, the Fund reported premium income of \$7,858,889 and non-operating investment income of \$3,278,930. Investment income in 2008 largely due to favorable changes in estimated fair values of the investment portfolio. During 2009, the Fund reported total expenses of \$9,179,956, which consisted primarily of claims, administrative and service agent fees and excess insurance premiums. Total expenses decreased \$1,749,253 or 16% compared to the prior year due primarily decreases in both paid and incurred claims compared to 2008.

The Fund's increase in net assets during 2009 was \$1,986,178, which was greater than the prior year as a result of an increase in premium revenue and decrease in claims expense being offset by decrease in investment income. See Statements of Revenues, Expenses and Changes in Net Assets on page 6 of this report.

**Financial Outlook**

The Fund anticipates a modest increase in membership during the next fiscal year. However, total premiums earned are not expected to increase significantly. Management emphasizes that the Fund's expenses are greatly impacted by claims losses and claims related expenses which are influenced by factors beyond management's control, including the rate of medical inflation, judicial rulings, and legislative changes.

**Requests for Information**

This financial report is designed to provide our members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Risk Management Agency – Workers' Compensation Fund, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**STATEMENTS OF NET ASSETS**  
**DECEMBER 31, 2009 AND 2008**

**ASSETS**

	<u>2009</u>	<u>2008</u>
Investments (note 4)	\$ 40,398,221	\$ 38,985,568
Accounts receivable, net	3,638,655	2,711,156
Reinsurance receivable (note 3)	1,094,428	282,123
Accrued interest receivable	<u>283,714</u>	<u>352,518</u>
Total assets	<u>\$ 45,415,018</u>	<u>\$ 42,331,365</u>

**LIABILITIES AND NET ASSETS**

Liabilities:		
Unpaid claims liability (note 3)	\$ 10,919,000	\$ 10,785,000
Unearned premiums	762,982	896,024
Due to affiliates - (note 2)	1,531,133	732,954
Accounts payable and accrued expenses	<u>2,171,648</u>	<u>1,873,310</u>
	15,384,763	14,287,288
Net assets	<u>30,030,255</u>	<u>28,044,077</u>
	<u>\$ 45,415,018</u>	<u>\$ 42,331,365</u>

The accompanying notes are an integral part of these financial statements.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b><u>OPERATING REVENUES</u></b>		
Premiums earned	\$ 10,301,080	\$ 7,858,889
Total operating revenues	<u>10,301,080</u>	<u>7,858,889</u>
<b><u>OPERATING EXPENSES</u></b>		
Claims expense (note 3)	4,723,076	7,534,279
Administrative fees (note 2)	959,972	899,268
Service agent fees (note 2)	829,067	752,449
Reinsurance premiums (note 2)	1,745,404	660,687
Second Injury Fund assessment	677,117	780,318
Office of Workers' Compensation assessment	115,011	232,284
Bad debt	58,282	-
Other	<u>72,027</u>	<u>69,924</u>
Total operating expenses	<u>9,179,956</u>	<u>10,929,209</u>
<b><u>OPERATING INCOME (LOSS)</u></b>	1,121,124	(3,070,320)
<b><u>NON-OPERATING INCOME</u></b>		
Investment income, net (note 4)	<u>865,054</u>	<u>3,278,930</u>
<b><u>CHANGE IN NET ASSETS</u></b>	1,986,178	208,610
<b><u>NET ASSETS - BEGINNING OF YEAR</u></b>	<u>28,044,077</u>	<u>27,835,467</u>
<b><u>NET ASSETS - END OF YEAR</u></b>	<u>\$ 30,030,255</u>	<u>\$ 28,044,077</u>

The accompanying notes are an integral part of these financial statements.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Operating income (loss)	\$ 1,121,124	\$ (3,070,320)
Adjustments to reconcile operating income (loss) to net cash used in operations:		
Change in receivables and reinsurance receivable	(1,739,804)	(223,749)
Change in unpaid claims liability	134,000	2,411,000
Change in accounts payable, accrued expenses, unearned premiums and due to affiliates	<u>963,475</u>	<u>478,237</u>
Net cash provided by (used in) operating activities	<u>478,795</u>	<u>(404,832)</u>
Cash flows from investing activities:		
Investment income received	1,700,040	1,715,421
Purchases of investments	(43,211,710)	(9,015,853)
Proceeds from sales and maturities of investments	<u>41,032,875</u>	<u>7,705,264</u>
Net cash provided by (used in) investing activities	<u>(478,795)</u>	<u>404,832</u>
Net change in cash	-	-
Cash, beginning of year	<u>-</u>	<u>-</u>
Cash, end of year	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES**

**(a) *Background and Financial Statement Presentation***

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the state of Louisiana are eligible to participate. The LMRMA-Workers' Compensation Fund's (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the Board of the Fund, after consultation with actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims. As of December 31, 2009 and 2008, there were 212 and 210 participating municipalities, respectively.

Louisiana Municipal Association (LMA) is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for LMRMA.

Risk Management, Inc. (RMI) is a third-party service agent primarily for LMRMA insurance funds. RMI, a Louisiana Corporation, is a wholly-owned subsidiary of LMA.

Louisiana Municipal Reserve Fund Agency (LMRFA) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of LMRFA is vested in the Executive Board of LMA. LMRFA reinsures the LMRMA Workers' Compensation Fund.

The various LMRMA and LMRFA Funds, LMA and RMI are all affiliated through common membership and management control. Although all of these entities are related parties, their various net assets are available only to each individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 10 and GASB Statement No. 14.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

1. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(b) ***Basis of Accounting***

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. The Fund applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Since the business of the Fund is essentially that of an insurance company having a business cycle greater than one year, the statements of net assets are not presented in a classified format.

(c) ***Investments***

Investments are reported at estimated fair value except for short-term and money market investments, consisting primarily of U.S. Treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized gains and losses and changes in unrealized gains and losses on investments recorded at fair value are included in investment income. Investments include money market accounts, repurchase agreements and U.S. Government Agency and Treasury obligations.

(d) ***Premium Income and Accounts Receivable***

Premiums are recognized as income over the life of the policies as they become earned. Any adjustments to annual premiums are considered to be a change in estimate and are recognized in the year they become known. Acquisition costs associated with new and renewal contracts are immaterial to the financial statements and are expensed when incurred.

The Fund considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made. Collections on accounts previously written off are included in other income when received.

(e) ***Operating / Non-Operating Revenue and Expenses***

Operating revenues consist of member premiums as these revenues are generated from the Fund's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses which are ancillary to the Fund's statutory purpose are classified as non-operating.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) *Unpaid Claims Liability***

The Fund provides workers' compensation coverage to members for claims incurred during the policy period regardless of when the claims are reported to the Fund. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience.

Adjustments to claims liabilities are charged or credited to claims expense in the periods in which they are made. The carrying amount of liabilities for claims losses and claims expense are presented at present value in the financial statements.

**(g) *Statements of Cash Flows***

For the purposes of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Because money markets and repurchase agreements are usually purchased with maturities of 90 days or more, they are classified as investments.

**(h) *Excess Reinsurance***

The Fund uses excess reinsurance agreements to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as the direct insurer of the insured risks. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers.

**(i) *Income Taxes***

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

**(j) *Insurance Related Assessments***

The Fund is subject to assessments made by the Louisiana Second Injury Fund and the Office of Workers' Compensation based on benefits paid each year. The Fund recognizes these assessments as expense when related claim benefits are incurred rather than paid. Changes in accruals for insurance related assessments are adjusted in the year assessment rate changes and claims estimates are made.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(k) *Use of Estimates***

Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, fair values of investments and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

**(l) *Reclassifications***

Certain items in the 2008 financial statements have been reclassified to be comparative to the 2009 presentation.

**2. RELATED PARTY TRANSACTIONS**

LMA, RMI and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees are based on earned normal premiums (ENP) for the years ended December 31, 2009 and 2008. The respective percentages of the respective earned normal premiums are as follows:

	<u>2009</u>	<u>2008</u>
Expenses (and current fee structure):		
Administrative fees - LMA (11.00% of ENP; 12.25% of ENP)	<u>\$ 959,972</u>	<u>\$ 899,268</u>
Service agent fees - RMI (9.5% of ENP; 10.25% of ENP)	<u>\$ 829,067</u>	<u>\$ 752,449</u>
Reinsurance - LMRFA (20.00% of ENP; 9.00% of ENP)	<u>\$ 1,745,404</u>	<u>\$ 660,687</u>
Reinsurance recoveries from LMRFA	<u>\$ 1,994,231</u>	<u>\$ 1,203,217</u>
Due to affiliates:		
LMA	\$ 365,972	\$ 599,268
RMI	142,017	72,999
LMRFA	1,115,404	60,687
LMRMA Public Liability Fund	<u>( 92,260)</u>	<u>-</u>
	<u>\$ 1,531,133</u>	<u>\$ 732,954</u>

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY**

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	\$ 23,039	\$ 15,613
Less: reinsurance recoverables	<u>12,254</u>	<u>7,239</u>
Liability for unpaid losses at beginning of year, net	<u>10,785</u>	<u>8,374</u>
Net incurred related to:		
Current year	4,004	4,359
Prior years	<u>719</u>	<u>3,175</u>
Total incurred	<u>4,723</u>	<u>7,534</u>
Net paid related to:		
Current year	876	909
Prior years	<u>3,713</u>	<u>4,214</u>
Total paid	<u>4,589</u>	<u>5,123</u>
Liability for unpaid losses at end of year, gross	27,946	23,039
Less: reinsurance recoverables	<u>17,027</u>	<u>12,254</u>
Liability for unpaid losses at end of year, net	<u>\$ 10,919</u>	<u>\$ 10,785</u>

In addition to the unpaid claims covered by the reinsurers, there are \$1,094,428 and \$282,123 of paid claims which are recoverable from the reinsurer at December 31, 2009 and 2008, respectively.

During 2009 and 2008, the Fund experienced overall unfavorable development on unpaid claims liabilities established in prior years. In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data, and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2009 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2009 will not vary from the above estimates, and such differences could be significant.

The Fund's claims payable have been discounted for December 31, 2009 and 2008, based on the Fund's anticipated payout patterns and a discount rate assumption of 5% which management expects to approximate the interest earnings over the payout period. The effect of the reserve discounts was \$1,753,000 and \$1,504,000 at December 31, 2009 and 2008, respectively.

The Fund is also subject to assessments by the Louisiana Second Injury Fund and Office of Workers Compensation each year based on the amount of assessable benefits paid each year. The Fund includes in accrued expenses estimated liabilities to be paid for assessable benefits paid and estimated to be paid in future periods.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEPOSITS AND INVESTMENTS**

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund was in compliance with these revised provisions during the years ended December 31, 2009 and 2008.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. Included in investments are money market accounts and repurchase agreements. The Fund's policy is to wire-transfer cash as needed from investments to support disbursements. Consequently, a zero cash balance is maintained.

Statement Number 40 of the Governmental Accounting Standards Board (GASB Statement No. 40), *Deposits and Investment Risk Disclosures* established and modified disclosure requirements related to investment risk. This section describes the various types of investment risk and the Funds exposure to each type.

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2009 and 2008:

<u>Investment Type</u>	<u>2009</u>		<u>2008</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Treasury bonds and notes	\$ 2,210,153	\$ 2,147,868	\$ 19,578,251	\$ 17,863,622
U.S. Government mortgage backed securities	12,944,474	12,448,872	12,281,888	11,814,080
U.S. Agency debt obligations	21,953,559	21,746,732	3,302,394	3,067,054
U.S. Government Guaranteed obligations	460,221	449,775	-	-
Money market funds	<u>2,829,814</u>	<u>2,829,814</u>	<u>3,823,035</u>	<u>3,823,035</u>
<b>TOTAL</b>	<b><u>\$ 40,398,221</u></b>	<b><u>\$ 39,623,061</u></b>	<b><u>\$ 38,985,568</u></b>	<b><u>\$ 36,567,791</u></b>

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEPOSITS AND INVESTMENTS (continued)**

**Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured, or are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Fund's name.

The Fund's investments in government debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by a counterparty. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission.

**Credit Risk**

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a tool with which to assess credit risk on debt obligations. U.S. Government debt securities are not required to be rated.

The following table is provided for use in assessing the Funds exposure to credit risk as of December 31, 2009 and 2008:

Standard and Poor's Rating	Estimated Fair Value 2009	Estimated Fair Value 2008
Money market funds	\$ 2,829,814	\$ 3,823,035
U.S. Government securities and U.S. Treasury securities –		
Not rated	12,944,829	11,080,053
Rated AAA	<u>24,623,578</u>	<u>24,082,480</u>
Total	<u>\$ 40,398,221</u>	<u>\$ 38,985,568</u>

Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund has no investments in any one issuer that represented 5% or more of total investments, other than the U.S. Government.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEPOSITS AND INVESTMENTS** (continued)

**Interest Rate Risk**

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2009:

<u>INVESTMENT</u> <u>TYPE</u>	<u>Estimated</u> <u>Fair Value</u>	<u>INVESTMENT MATURITIES (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>5-10</u>	<u>Greater than 10</u>
U.S. Treasury bonds and notes	\$ 2,210,153	\$ 728,242	\$ 1,481,911	\$ -	\$ -
U.S. Government mortgage backed	12,944,474	-	891,579	5,303,857	6,749,038
U.S. agency debt obligations	21,953,559	-	11,891,198	10,062,361	-
Corporate obligations	460,221	-	460,221	-	-
Money market funds	<u>2,829,814</u>	<u>2,829,814</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL</b>	<b><u>\$40,398,221</u></b>	<b><u>\$ 3,558,056</u></b>	<b><u>\$14,724,909</u></b>	<b><u>\$15,366,218</u></b>	<b><u>\$ 6,749,038</u></b>

Mortgage-backed securities are included in the above table based upon their contractual terms. These types of securities typically experience repayments over a shorter term.

Investment income for the years ended December 31, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Interest income	\$ 1,419,253	\$ 1,570,389
Realized gains (losses), net	313,259	( 48,523)
Unrealized gains (losses) arising during the year	<u>( 867,458)</u>	<u>1,757,064</u>
	<b><u>\$ 865,054</u></b>	<b><u>\$ 3,278,930</u></b>

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**5. REINSURANCE POLICY COVERAGE**

During the years ended December 31, 2009 and 2008, LMRFA provided excess reinsurance to the Fund with the following limits:

Item I:           \$2,000,000 annual aggregate in excess of 80% of earned normal premium  
Item II:          \$2,000,000 each and every loss in excess of \$175,000 each and every loss

The Fund and LMRFA represent a cooperative program for group funding and risk management of public liability, workers' compensation and accident and health claims of participating Louisiana municipalities. Although premiums billed to the participants are determined on an actuarial basis, ultimate liability for claim obligations remains with the participants.

The following are condensed Statements of Net Assets for LMRFA at December 31, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Assets	\$ 43,110,688	\$ 42,982,006
Liabilities	<u>35,598,756</u>	<u>29,933,750</u>
Net assets	<u>\$ 7,511,932</u>	<u>\$ 13,048,256</u>

**6. SUBSEQUENT EVENTS**

Management has evaluated events through the date that the financial statements were available to be issued, June 8, 2010 and determined that there were no events that required disclosure.

**SUPPLEMENTAL INFORMATION**

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
WORKERS' COMPENSATION FUND**

**SCHEDULE OF TEN-YEAR CLAIMS DEVELOPMENT INFORMATION  
CLAIMS EXPENSE AND RE-ESTIMATED CLAIM ADJUSTMENT EXPENSE**

**DECEMBER 31, 2009**

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and claims expense incurred by the Fund as of the end of 2009 and as of the end of each of the last nine years.

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
	(in thousands)									
ENP and investment income	\$ 11,166	\$ 11,138	\$ 10,101	\$ 8,429	\$ 7,160	\$ 6,059	\$ 5,590	\$ 6,811	\$ 5,566	\$ 5,801
Operating costs, unallocated	3,431	3,395	2,951	2,473	1,987	1,963	2,347	1,693	1,452	1,445
Estimated incurred claims and expense, end of policy year	4,429	4,824	4,712	3,577	3,898	4,032	3,589	2,146	1,700	2,184
Paid (cumulative) as of:										
End of policy year	876	909	1,172	953	964	1,051	1,076	643	499	716
One year later	-	2,164	2,758	2,186	2,061	2,240	2,074	1,533	1,093	1,475
Two years later	-	-	3,481	2,992	2,696	2,685	2,502	2,195	1,358	1,965
Three years later	-	-	-	3,527	3,290	3,188	2,845	2,731	1,480	2,089
Four years later	-	-	-	-	3,749	3,731	2,909	2,881	1,530	2,281
Five years later	-	-	-	-	-	3,937	3,167	3,171	1,638	2,366
Six years later	-	-	-	-	-	-	3,246	3,450	1,689	2,441
Seven years later	-	-	-	-	-	-	-	3,615	1,774	2,612
Eight years later	-	-	-	-	-	-	-	-	1,813	3,023
Nine years later	-	-	-	-	-	-	-	-	-	3,150
Re-estimated incurred claims and claims expense:										
End of policy year	4,429	4,824	4,712	3,577	3,898	4,032	3,589	2,146	1,700	2,184
One year later	-	4,938	5,334	3,967	3,746	4,266	3,781	2,554	1,760	2,821
Two years later	-	-	5,915	4,305	3,934	3,994	3,556	3,049	1,874	2,606
Three years later	-	-	-	4,961	4,487	4,130	3,690	3,310	1,933	2,600
Four years later	-	-	-	-	4,827	5,058	3,565	3,348	1,876	2,746
Five years later	-	-	-	-	-	4,707	3,811	3,481	1,871	2,668
Six years later	-	-	-	-	-	-	3,762	3,896	1,892	2,659
Seven years later	-	-	-	-	-	-	-	4,000	2,000	3,047
Eight years later	-	-	-	-	-	-	-	-	1,973	3,174
Nine years later	-	-	-	-	-	-	-	-	-	3,386
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	114	1,203	1,384	929	675	173	1,854	273	1,202

See accompanying independent auditors' report.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Officers and Trustees  
Louisiana Municipal Risk Management Agency  
Workers' Compensation Fund

We have audited the financial statements of Louisiana Municipal Risk Management Agency – Workers' Compensation Fund (the Fund), as of and for the year ended December 31, 2009, and have issued our report thereon dated June 8, 2010. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Fund's financial statements will not be prevented, or detected and corrected in a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph was not designed to identify all deficiencies in internal control that we consider to be material weaknesses, as defined above.

**Financial Reporting Process**

Management typically reports the Fund's interim financial activity essentially on a cash basis. The annual audited financial statements include significant adjustments to report the Fund's financial statements on an accrual basis in accordance with U.S. generally accepted accounting principles. Pursuant to the year end and audit processes, significant adjustments are required to convert the financial statements from the cash method of accounting to the accrual method of accounting.

The nature of insurance programs involves significant risks and uncertainties that we believe should be reported and monitored more often than annually. The year-end financial statement process indicated significant adverse claims development and financial losses that should be measured more frequently than once a year. Management does monitor various measures not included in the financial statements but reports financial activities and financial position of the Fund on a cash basis which is not intended to capture important information inherent in accrual basis financial.

As we have reported in prior years, we believe management should implement additional financial reporting procedures to provide interim reporting on an accrual basis of accounting as opposed to essentially a cash basis of accounting. This can be accomplished by expanding financial processes related to premium recognition as well as developing processes for estimating and recording interim claims loss reserves and related expenses. We believe these changes will provide management and the Board with more timely and meaningful financial information to monitor the Fund's financial performance and position.

#### *Loss Reserve Setting and Development*

The Fund has experienced considerable variability in the reserve setting process during recent years which have had a significant impact on the Fund's financial statements. This variability has resulted in significant underwriting losses which stem from the following internal control matters:

- The Fund's administrator implemented a new claims administration system to more efficiently administer and adjudicate the Fund's insurance program a couple of years ago. As is often the case with system conversions, several sources of data key to estimating and development of reasonable and reliable loss reserves liabilities were inconsistent and required extensive analysis. These factors contributed to less reliability and more variability in the overall loss reserve estimation process.
- Our review of setting case reserves for individual claims files indicated significant increases in case reserves in recent years. These increases were not isolated to a particular category of claim but appear to be pervasive throughout the claims reserving process. Case reserves should always be set in amounts reasonably expected to reflect the loss incurred based on assessment of the loss information available at the time and provide for inherent uncertainty.

The Fund's loss data should be continually evaluated to better insure sufficient and reliable information is available to estimate loss reserves with reasonable accuracy and consistency. Sufficient industry data and Fund specific information should also be regularly evaluated to assist in the development of fair and reasonable loss reserves and premium rates to diversify the risks among for the Fund's membership. Management may also want to consider having a third-party review of the policies and practices of the claims department to ensure that best practices are being adhered with and stay with current industry trends.

#### *Reconciliation Processes*

During the performance of our audit process, we noted that certain general ledger and other subsidiary ledgers were not reconciled, or not reconciled in a timely manner, and adjustments recorded as necessary. Accounting tasks such as reconciling and adjusting accounts play a key role in proving the accuracy of accounting data and ensuring that the check and balances among segregated duties are functioning. Areas we noted these conditions included investment accounting, premium receipts, and accounting for other receivables including deductibles.

We also understand that changes in personnel occurred during the year which may have contributed to these conditions. We believe that formalizing accounting policies and procedures manuals could help mitigate these types of situations in the future.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

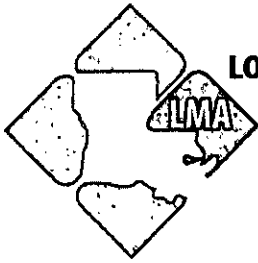
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are not material weaknesses.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Louisiana Municipal Risk Management Agency – Workers' Compensation Fund, others within the entity, and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Postlethwaite & Netterville*  
Baton Rouge, Louisiana  
June 8, 2010



**LOUISIANA MUNICIPAL ASSOCIATION**  
a unified voice for municipalities since 1926

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First Vice President  
**Bobby R. Washington**  
Mayor, Cullen

Second Vice President  
**Glenn L. Brasseaux**  
Mayor, Carencro

Executive Director  
**Tom Ed McHugh**

Daryl G. Purpera  
Legislative Auditor  
P.O. Box 94397  
Baton Rouge, Louisiana 70804-9397

Dear Sir,

In the Financial Statements for the Louisiana Municipal Risk Management Agency Workers' Compensation Fund, Public Liability Fund, and Reserve Fund, for the year ended December 31 2009, our auditors Postlethwaite & Netterville, noted a significant deficiency in internal control over our financial reporting in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. The deficiencies were described as follows:

*Financial Reporting Process* – The annual audited financial statements include significant adjustments to report the Funds' financial statements on an accrual basis in accordance with U.S. generally accepted accounting principals. Management should implement additional financial reporting procedures to provide interim reporting on an accrual basis of accounting as opposed to essentially a cash basis of accounting. This can be accomplished by expanding financial processes related to premium recognition as well as developing processes for estimating and recording interim loss reserves and related expenses.

*Loss Reserve Setting and Development* – The Fund's loss data should be continually evaluated to better insure sufficient and reliable information is available to estimate loss reserves with reasonable accuracy and consistency. Sufficient industry data and Fund specific information should also be regularly evaluated to assist in the development of fair and reasonable loss reserves and premium rates to diversify the risks among the Fund's membership.

*Reconciliation Process* – During the performance of our audit process, we noted that certain general ledger and other subsidiary ledgers were not reconciled, or not reconciled in a timely manner, and adjustments recorded as necessary. Accounting tasks such as reconciling and adjusting accounts

play a key role in proving the accuracy of accounting data and ensuring that the check and balances among segregated duties are functioning. Areas we noted these conditions included investment accounting, premium receipts, and accounting for other receivables including deductibles.

When the audit results were presented to the Board of Directors at the June 16, 2010, meeting, these deficiencies were noted.

*Financial Reporting Process* -The deficiencies as noted will be eliminated by having the Chief Financial Officer of the Louisiana Municipal Association make the adjustments to the accounts receivable and unearned premium accounts to properly reflect the accrual basis of the receivables/unearned premiums as well as related revenue. Reinsurance receivables will also be adjusted by the Chief Financial Officer.

*Loss Reserve Setting and Development* -The Fund's loss data will be continually evaluated to better insure sufficient and reliable information is available to estimate loss reserves with reasonable accuracy and consistency. New procedures will be implemented for estimating and recording claims loss reserves and related expenses. An additional report demonstrating reserve adjustments for all fund years will be provided to the board on a quarterly basis.

*Reconciliation Process*- In mid 2009, LMA experienced turnover in key accounting personnel, and is currently in the process of reorganizing the Accounting Department and training new personnel. This reorganization and addition of accounting staff will ensure the implementation of additional procedures to mitigate problems in the future. Investment accounts, premium receipts, and deductibles will be reconciled monthly. Formalized accounting policies and procedures are also being developed to mitigate these problems in the future.

Very truly yours,



Tom Ed McHugh  
Executive Director  
Louisiana Municipal Association

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**LOUISIANA MUNICIPAL**  
**RESERVE FUND AGENCY**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

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**LOUISIANA MUNICIPAL**  
**RESERVE FUND AGENCY**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

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**INDEPENDENT AUDITORS' REPORT**

Officers and Trustees  
Louisiana Municipal Reserve Fund Agency  
Baton Rouge, Louisiana

We have audited the accompanying statements of net assets of Louisiana Municipal Reserve Fund Agency (a quasi-public organization) (the Fund) as of December 31, 2009 and 2008 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Reserve Fund Agency as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 4 and the schedule of ten-year claims development information on page 17 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 8, 2010, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audits.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 8, 2010

# **LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS** **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Reserve Fund Agency's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2009 and 2008. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

### **Financial Highlights**

- The assets of the Fund exceeded its liabilities at December 31, 2009 by \$7,511,932 compared to \$13,048,256 as of December 31, 2008, which is a 42% decrease from the previous year.
- At December 31, 2009, the Fund's assets totaled \$43,110,688 which consisted primarily of investment securities primarily composed of cash, direct and indirect investments in U.S. Government debt obligations, and receivables. At December 31, 2008, the Fund's assets totaled \$42,982,006 and were comprised of similar types of assets.
- The Fund reported gross earned premiums of \$4,015,733 and \$3,246,442 during the years ended December 31, 2009 and 2008, respectively. This increase during 2009 is as a result of increases in premium rates for a related party fund to more closely match third party rates.
- The Fund recognized investment income of \$1,205,145 and \$3,752,410 during the years ended December 31, 2009 and 2008, respectively. The decrease in investment income is attributed to unfavorable changes in market values of the Fund's investment portfolios.
- The Fund had a decrease in net assets of \$5,536,324 during the year ended December 31, 2009 and a decrease in net assets of \$8,743,171 during the year ended December 31, 2008.

### **Overview of the Financial Statements**

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the financial statements, which explain some of the information in the financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by private sector. The Statements of Net Assets include all of the Fund's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. These statements measure the success of the Fund's operations over the year and can be used to determine whether the Fund has successfully recovered all its costs through its premium and investment income, profitability and credit worthiness. The final required financial statements is the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Overview of the Financial Statements (continued)**

The preparation of these financial statements requires the utilization of significant estimates, many of which will not be known for many years. Changes in estimates as well as the differences in actual results and estimated amounts will be included in the Statement of Revenues, Expenses and Changes in Net Assets as these circumstances become known.

**Financial Analysis of the Fund**

The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the net assets of the Fund and changes in them. The net assets (difference between assets and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net assets are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, healthcare costs, judicial environment, and new or changed government legislation.

**Condensed Statements of Net Assets at December 31,:**

	<u>2009</u>	<u>2008</u>
Total assets	\$ 43,110,688	\$ 42,982,006
Total liabilities	<u>35,598,756</u>	<u>29,933,750</u>
Net assets	<u>\$ 7,511,932</u>	<u>\$ 13,048,256</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets increased approximately 0.5% while liabilities increased 18% due to increase in claims liabilities resulting from both unfavorable development of claims associated with prior years as well as higher claims estimates incurred in 2009. Net assets decreased approximately 42% from the prior year resulting from higher incurred claims.

**Condensed Statements of Revenues and Expenses and Changes in Net Assets  
for the Years Ended December 31:**

	<u>2009</u>	<u>2008</u>
Operating revenues	\$ 4,015,733	\$ 3,246,442
Operating expenses	<u>10,757,202</u>	<u>15,742,023</u>
Operating loss	(6,741,469)	(12,495,581)
Non-operating income	<u>1,205,145</u>	<u>3,752,410</u>
Change in net assets	<u>\$ (5,536,324)</u>	<u>\$ (8,743,171)</u>

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Financial Analysis of the Fund (continued)**

During the year ended December 31, 2009, the Fund reported premium earned of \$4,015,733 and investment income of \$1,205,145. Premiums earned increased due to increases in certain premium rates charged to affiliated risk retention funds operated for the benefit of Louisiana municipalities and changes in membership/premiums of those funds. Investment income decreased due to unfavorable market performance in the Fund's investment as well as continued growth of the portfolio. The Fund reported total expenses of \$10,757,202 which consisted primarily of claims expense. Total expenses decreased approximately \$4.9 million due primarily to significant increased claims and unfavorable development in all three base insurance funds in the prior year. The Fund experienced a decrease in net assets of \$5,536,324 for the current year. See the Statements of Revenues, Expenses and Changes in Net Assets on page 6 of this report.

**Requests for Information**

This financial report is designed to provide members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Reserve Fund Agency, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**STATEMENTS OF NET ASSETS  
DECEMBER 31, 2009 AND 2008**

**ASSETS**

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents (note 4)	\$ 1,036,477	\$ 187,373
Investments (note 4)	40,536,865	42,287,295
Accrued interest receivable	370,651	421,627
Other receivables	78,347	78,347
Due from affiliates (note 2)	1,085,739	1,022
Reinsurance receivable	<u>2,609</u>	<u>6,342</u>
Total assets	<u>\$ 43,110,688</u>	<u>\$ 42,982,006</u>

**LIABILITIES AND NET ASSETS**

Liabilities:		
Claims payable (note 2)	\$ 715,570	\$ 754,109
Unpaid claims liability (note 3)	34,877,000	29,170,000
Accrued expenses	<u>6,186</u>	<u>9,641</u>
Total liabilities	35,598,756	29,933,750
Net assets	<u>7,511,932</u>	<u>13,048,256</u>
	<u>\$ 43,110,688</u>	<u>\$ 42,982,006</u>

The accompanying notes are an integral part of these financial statements.

**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b><u>OPERATING REVENUES</u></b>		
Premiums earned (note 2)	\$ 4,015,733	\$ 3,246,442
Total operating revenues	<u>4,015,733</u>	<u>3,246,442</u>
<b><u>OPERATING EXPENSES</u></b>		
Claims expense (note 3)	10,635,498	15,614,849
Reinsurance premium	56,929	55,944
Miscellaneous	<u>64,775</u>	<u>71,230</u>
Total operating expenses	<u>10,757,202</u>	<u>15,742,023</u>
<b><u>OPERATING LOSS</u></b>	(6,741,469)	(12,495,581)
<b><u>NON-OPERATING INCOME</u></b>		
Investment income, net (note 4)	<u>1,205,145</u>	<u>3,752,410</u>
<b><u>CHANGE IN NET ASSETS</u></b>	(5,536,324)	(8,743,171)
Net assets, beginning of year	<u>13,048,256</u>	<u>21,791,427</u>
Net assets, end of year	<u>\$ 7,511,932</u>	<u>\$ 13,048,256</u>

The accompanying notes are an integral part of these financial statements.

**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Operating loss	\$ (6,741,469)	\$ (12,495,581)
Adjustments to reconcile operating loss to net cash used in operations:		
Change in due from affiliates, reinsurance receivable, other receivables	(1,080,984)	(79,509)
Change in unpaid claims liability	5,707,000	9,292,000
Change in accrued expenses	<u>(41,994)</u>	<u>594,311</u>
Net cash used in operating activities	<u>(2,157,447)</u>	<u>(2,688,779)</u>
Cash flows from investing activities:		
Purchases of investments	(11,166,052)	(9,403,157)
Proceeds from sales or maturities of investments	12,334,660	9,370,585
Investment income received	<u>1,837,943</u>	<u>2,054,120</u>
Net cash provided by investing activities	<u>3,006,551</u>	<u>2,021,548</u>
Net change in cash	849,104	(667,231)
Cash, beginning of year	<u>187,373</u>	<u>854,604</u>
Cash, end of year	<u><u>\$ 1,036,477</u></u>	<u><u>\$ 187,373</u></u>

The accompanying notes are an integral part of these financial statements.

**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES**

***(a) Background and Financial Statement Presentation***

Louisiana Municipal Reserve Fund Agency (LMRFA or the Fund) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of the Fund is vested in the Executive Board of LMA. LMRFA reinsures the Louisiana Municipal Risk Management Agency (LMRMA) Public Liability Fund, Workers' Compensation Fund and Accident and Health Fund. During 2009 and 2008, LMRFA also reinsured two municipalities.

LMRMA was formed under Louisiana Act No. 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the state of Louisiana are eligible to participate. The program's general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the Board of LMRMA after actuarial consultation. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims.

Louisiana Municipal Association (LMA) is an association for the municipalities of Louisiana and is incorporated as a non-profit corporation under the laws of the State of Louisiana. LMA acts as the administrator for LMRFA.

Risk Management, Inc. (RMI) is a third-party service agent primarily for LMRMA insurance funds and LMRFA. RMI, a Louisiana Corporation, is a wholly-owned subsidiary of LMA.

The various LMRMA Funds, LMA, RMI, and LMRFA are all affiliated through common membership and management control. Although all of these entities are related parties, their various net assets are available only to each individual entity for its operations. For this reason each entity is presented as a separate "stand alone" entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 10 and GASB Statement No. 14.

***(b) Basis of Accounting***

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. The Fund applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Since the business of the Fund is essentially that of an insurance company having a business cycle greater than one year, the statements of net assets are not presented in a classified format.

**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(c) *Investments***

Investments are reported at estimated fair value except for short-term and money market investments, consisting primarily of U.S. Treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized gains and losses and changes in unrealized gains and losses on investments recorded at estimated fair value are included in investment income. Investments include money market accounts, repurchase agreements, and U.S. Government Agency, treasury obligations and corporate obligations.

**(d) *Premium Income***

Most of the premium income of LMRFA collected in the current year is based on a percentage of premium of LMRMA workers' compensation, public liability, and accident and health funds (see note 2). Pursuant to the reinsurance agreements, the LMRMA Funds are responsible for all of LMRFA's claims servicing and administrative costs. For the years ended December 31, 2009 and 2008, LMRFA provided reinsurance directly to municipalities for a total premium of \$4,413 and \$94,202, respectively. Acquisition costs associated with new and renewal contracts are expensed when incurred.

**(e) *Operating / Non-Operating Revenue and Expense***

Operating revenues consist of member premiums as these revenues are generated from the Fund's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses which are ancillary to the Fund's statutory purpose are classified as non-operating.

**(f) *Unpaid Claims Liability***

The policy liabilities reinsured by the Fund are for claims incurred during the benefit period, regardless of when the claims are reported. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as public liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to claims expense in the periods in which they are made. The carrying amount of liabilities for claims losses and claims expenses are presented at present value in the financial statements.

**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(g) *Cash and cash equivalents***

For the purpose of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Because certificates of deposit, money markets and repurchase agreements are usually purchased with maturities of 90 days or more, they are classified as investments (see note 4).

**(h) *Income Taxes***

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

**(i) *Use of Estimates***

Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, fair values of investments and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

**(j) *Reclassification***

Certain items in the 2008 financial statements have been reclassified to be comparative to the 2009 presentation.

**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**2. RELATED PARTY TRANSACTIONS**

LMA, RMI, LMRMA and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees are based on earned normal premiums (ENP). The respective percentages of the respective earned normal premiums and earned standard premiums are as follows:

	2009		2008	
	Fee Basis	Amount	Fee Basis	Amount
Premium income:				
LMRMA:				
Public Liability	16.75% ENP	\$ 1,692,650	16.75% ENP	\$ 1,620,335
Workers' Compensation	20.00% ENP	1,745,404	9.00% ENP	660,687
Accident and Health	\$28.32 per participant	573,266	\$28.32 per participant	668,125
		<u>\$ 4,011,320</u>		<u>\$ 2,949,147</u>
Due (to) from affiliates:				
LMRMA:				
Public Liability		\$ (29,666)		\$ (59,665)
Workers' Compensation		1,115,405		60,687
		<u>\$ 1,085,739</u>		<u>\$ 1,022</u>

The Board of Trustees has authorized that the Fund may lend up to \$500,000 to the LMRMA Accident and Health Fund on an unsecured and non-interest bearing basis. There were no advances made during 2008 and 2009 under this agreement.

Claims payable represents amounts payable to the LMRMA Accident and Health Fund for claims unpaid at December 31, 2009, and 2008 of \$715,570 and \$754,109, respectively which were in excess of the LMRMA Accident and Health Fund's retention level.

**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY**

The following represents changes in the aggregate unpaid claims liabilities for the Fund for the years ended December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
	<u>(Amounts in thousands)</u>	
Liability for unpaid losses at beginning of year, gross	\$ 29,170	\$ 19,878
Less: Reinsurance recoverables	<u>-</u>	<u>-</u>
Liability for unpaid losses at beginning of year, net	<u>29,170</u>	<u>19,878</u>
Net incurred related to:		
Current year	5,839	8,147
Prior years	<u>4,796</u>	<u>7,468</u>
Total incurred	<u>10,635</u>	<u>15,615</u>
Net paid related to:		
Current year	1,345	1,855
Prior years	<u>3,583</u>	<u>4,468</u>
Total paid	<u>4,928</u>	<u>6,323</u>
Liability for unpaid losses at end of year, gross	34,877	29,170
Less: reinsurance recoverables	<u>-</u>	<u>-</u>
Liability for unpaid losses at end of year, net	<u>\$ 34,877</u>	<u>\$ 29,170</u>

During 2009, the Fund experienced overall unfavorable development on unpaid claims liabilities established in prior years due largely to the impact of certain adverse development as it relates to workers' compensation and public liability coverage. During 2008, the Fund also experienced overall unfavorable development on unpaid claims liabilities established in prior years. These significant unfavorable developments are due to certain adverse judicial proceedings as well as large losses that were reported during 2009 and 2008 but related to events occurring in prior years. In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2009 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2009 will not vary from the above estimates, and such differences could be significant.

The Fund's claims payable have been discounted for December 31, 2009 and 2008 based on the Fund's anticipated payout patterns and a discount rate assumption of 5%, which management expects to approximate the interest earnings over the payout period. Management believes these revised assumptions more accurately reflect the payout patterns and investment earning rates that should be used for discounting reserves. The effect of the reserve discounts was \$14,650,000 and \$12,082,000 at December 31, 2009 and 2008, respectively.

**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEPOSITS AND INVESTMENTS**

LMRFA must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by this Fund shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund was in compliance with these revised provisions during the years ended December 31, 2009 and 2008.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. Included in investments are certificates of deposit, money market accounts and repurchase agreements.

Statement Number 40 of the Governmental Accounting Standards Board (GASB Statement No. 40), *Deposits and Investment Risk Disclosures*, established and modified disclosure requirements related to investment risk. This section describes the various types of investment risk and the Funds exposure to each type.

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2009 and 2008:

<u>Investment Type</u>	<u>2009</u>		<u>2008</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Government mortgage backed securities	\$ 14,275,230	\$ 13,708,061	\$ 7,541,367	\$ 7,348,284
U.S. Government agency debt obligations	24,693,698	23,628,184	26,796,473	24,988,214
U.S. Treasury bonds and notes	724,500	682,725	6,700,345	6,103,350
U.S. Government guaranteed obligations	138,753	134,924	88,312	84,920
Money market funds	<u>704,684</u>	<u>704,684</u>	<u>1,160,798</u>	<u>1,160,794</u>
TOTAL	<u>\$ 40,536,865</u>	<u>\$ 38,858,578</u>	<u>\$ 42,287,295</u>	<u>\$ 39,685,562</u>

**Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured, or are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Fund's name.

**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEPOSITS AND INVESTMENTS (continued)**

The Fund's investments in government debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by a counterparty. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission.

**Credit Risk**

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a tool with which to assess credit risk on debt obligations. U.S. Government debt securities are not required to be rated. The following table is provided for use in assessing the Fund's exposure to credit risk as of December 31, 2009 and 2008.

Standard and Poor's Rating	Estimated Fair Value 2009	Estimated Fair Value 2008
Money market funds	\$ 704,684	\$ 1,160,798
U.S. Government securities and U.S. Treasury securities		
Not rated	14,275,450	15,395,132
Rated AAA	<u>25,556,731</u>	<u>25,731,365</u>
Total	<u>\$ 40,536,865</u>	<u>\$ 42,287,295</u>

Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund has no investments in any one issuer that represented 5% or more of total investments, other than the U.S. Government.

**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEPOSITS AND INVESTMENTS (continued)**

**Interest Rate Risk**

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. This risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2009:

<u>INVESTMENT TYPE</u>	<u>Estimated Fair Value</u>	<u>INVESTMENT MATURITIES (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater than 10</u>
Money market funds	\$ 704,684	\$ 704,684	\$ -	\$ -	\$ -
U.S. Government mortgage backed	14,275,230	137	354,112	4,728,288	9,192,693
U.S. Government Agencies	24,693,698	1,007,211	12,855,169	10,831,318	-
U.S. Treasury bonds and notes	724,500	-	286,222	312,075	126,203
Corporate obligations	<u>138,753</u>	<u>-</u>	<u>138,753</u>	<u>-</u>	<u>-</u>
<b>TOTAL</b>	<b><u>\$ 40,536,865</u></b>	<b><u>\$ 1,712,032</u></b>	<b><u>\$ 13,634,256</u></b>	<b><u>\$ 15,871,681</u></b>	<b><u>\$ 9,318,896</u></b>

Mortgage-backed securities are included in the above table based upon their contractual terms. These types of securities typically experience repayments over a shorter term.

Net investment income for the years ended December 31, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Interest income	\$ 1,775,380	\$ 1,946,025
Net realized gains (losses) – net	353,347	25,086
Unrealized gains (losses) arising during the year	<u>(923,582)</u>	<u>1,781,299</u>
	<b><u>\$ 1,205,145</u></b>	<b><u>\$ 3,752,410</u></b>

**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**5. REINSURANCE POLICY COVERAGE**

LMRMA and LMRFA represent a cooperative program for group funding and risk management of public liability, workers' compensation, and accident and health risks of participating Louisiana municipalities. Although premiums billed to the participants are determined on an actuarial basis, ultimate liability for claims remains with the participants.

**Ceded:**

LMRFA obtained commercial reinsurance to cover a portion of the workers' compensation medical losses for the periods January 1, 1995 through December 31, 2001. For all subsequent years, the LMRFA did not reinsure workers' compensation medical losses. LMRFA obtained commercial reinsurance to cover a portion of the accident and health risks assumed during 2009 and 2008.

**Assumed:**

For the years ended December 31, 2009 and 2008, LMRFA provided excess reinsurance to LMRMA, Workers' Compensation, Public Liability and Accident and Health Funds with the following limits:

**Workers' Compensation Fund**

Item I: \$2,000,000 annual aggregate in excess of 80% of earned normal premium

Item II: \$2,000,000 each and every loss in excess of \$175,000 each and every loss

**Public Liability Fund**

Item I: \$5,000,000 annual aggregate in excess of 65% of earned normal premium

Item II: Each and every loss in excess of \$100,000 each and every loss

**Accident and Health Fund**

Item I: Annual aggregate in excess of 125% of annual earned normal premium.

Item II: \$900,000 specific losses in excess of \$100,000 each and every loss.

**6. SUBSEQUENT EVENTS**

Management has evaluated events through the date that the financial statements were available to be issued, June 8, 2010 and determined that there were no events that required disclosure.

**SUPPLEMENTAL INFORMATION**

**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**SCHEDULE OF TEN-YEAR CLAIMS DEVELOPMENT INFORMATION  
CLAIMS EXPENSE AND RE-ESTIMATED CLAIM ADJUSTMENT EXPENSE**

**DECEMBER 31, 2009**

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and claims expense incurred by the Fund as of the end of 2009 and as of the end of each of the last nine years.

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
	(in thousands)									
ENP and investment income	\$ 5,220	\$ 6,999	\$ 6,090	\$ 4,516	\$ 3,658	\$ 4,052	\$ 4,327	\$ 5,324	\$ 4,290	\$ 4,586
Operating costs, unallocated	122	127	124	120	124	118	135	63	294	293
Estimated incurred claims and expense, end of policy year	7,560	9,125	5,650	4,615	4,009	5,743	3,343	3,710	2,309	1,783
Paid (cumulative) as of:										
End of policy year	1,345	1,855	562	712	371	209	239	-	-	-
One year later	-	1,232	1,072	1,115	371	209	428	60	413	69
Two years later	-	-	2,036	1,310	2,378	337	702	1,463	1,158	300
Three years later	-	-	-	2,234	2,950	1,150	1,479	2,348	1,323	629
Four years later	-	-	-	-	3,063	2,355	1,594	3,137	1,371	715
Five years later	-	-	-	-	-	2,671	3,029	3,378	1,629	920
Six years later	-	-	-	-	-	-	3,484	3,654	1,691	1,075
Seven years later	-	-	-	-	-	-	-	3,838	1,775	1,257
Eight years later	-	-	-	-	-	-	-	-	1,877	1,473
Nine years later	-	-	-	-	-	-	-	-	-	1,514
Re-estimated incurred claims and claims expense:										
End of policy year	7,560	9,125	5,650	4,615	4,009	5,743	3,343	3,710	2,309	1,783
One year later	-	10,254	8,712	4,491	4,564	4,308	3,215	2,656	2,305	1,624
Two years later	-	-	10,074	5,895	5,515	3,824	3,418	4,942	3,335	1,570
Three years later	-	-	-	6,989	6,211	4,059	4,237	5,176	2,011	1,560
Four years later	-	-	-	-	6,437	6,934	4,160	5,592	2,347	1,731
Five years later	-	-	-	-	-	6,576	4,992	6,131	2,421	1,803
Six years later	-	-	-	-	-	-	5,893	6,025	2,245	2,013
Seven years later	-	-	-	-	-	-	-	6,441	2,425	2,177
Eight years later	-	-	-	-	-	-	-	-	2,360	3,199
Nine years later	-	-	-	-	-	-	-	-	-	3,053
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	1,129	4,424	2,374	2,428	833	2,550	2,731	51	1,270

See accompanying independent auditors' report.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Officers and Trustees  
Louisiana Municipal Reserve Fund Agency  
Baton Rouge, Louisiana

We have audited the financial statements of Louisiana Municipal Reserve Fund Agency (the Fund) as of and for the year ended December 31, 2009, and have issued our report thereon dated June 8, 2010. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Fund's financial statements will not be prevented, or detected and corrected in a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph was not designed to identify all deficiencies in internal control that we consider to be material weaknesses, as defined above.

***Financial Reporting Process***

Management typically reports the Fund's interim financial activity essentially on a cash basis. The annual audited financial statements include significant adjustments to report the Fund's financial statements on an accrual basis in accordance with U.S. generally accepted accounting principles. Pursuant to the year end and audit processes, significant adjustments are required to convert the financial statements from the cash method of accounting to the accrual method of accounting.

The nature of insurance programs involves significant risks and uncertainties that we believe should be reported and monitored more often than annually. The year-end financial statement process indicated significant adverse claims development and financial losses that should be measured more frequently than once a year. Management does monitor various measures not included in the financial statements but reports financial activities and financial position of the Fund on a cash basis which is not intended to capture important information inherent in accrual basis financial.

As we have reported in prior years, we believe management should implement additional financial reporting procedures to provide interim reporting on an accrual basis of accounting as opposed to essentially a cash basis of accounting. This can be accomplished by expanding financial processes related to premium recognition as well as developing processes for estimating and recording interim claims loss reserves and related expenses. We believe these changes will provide management and the Board with more timely and meaningful financial information to monitor the Fund's financial performance and position.

#### *Loss Reserve Setting and Development*

The Fund has experienced considerable variability in the reserve setting process during recent years which have had a significant impact on the Fund's financial statements. This variability has resulted in significant underwriting losses which stem from the following internal control matters:

- The Fund's administrator implemented a new claims administration system to more efficiently administer and adjudicate the Fund's insurance program a couple of years ago. As is often the case with system conversions, several sources of data key to estimating and development of reasonable and reliable loss reserves liabilities were inconsistent and required extensive analysis. These factors contributed to less reliability and more variability in the overall loss reserve estimation process.
- Our review of setting case reserves for individual claims files indicated significant increases in case reserves in recent years. These increases were not isolated to a particular category of claim but appear to be pervasive throughout the claims reserving process. Case reserves should always be set in amounts reasonably expected to reflect the loss incurred based on assessment of the loss information available at the time and provide for inherent uncertainty.

The Fund's loss data should be continually evaluated to better insure sufficient and reliable information is available to estimate loss reserves with reasonable accuracy and consistency. Sufficient industry data and Fund specific information should also be regularly evaluated to assist in the development of fair and reasonable loss reserves and premium rates to diversify the risks among for the Fund's membership. Management may also want to consider having a third-party review of the policies and practices of the claims department to ensure that best practices are being adhered with and stay with current industry trends.

#### *Reconciliation Processes*

During the performance of our audit process, we noted that certain general ledger and other subsidiary ledgers were not reconciled, or not reconciled in a timely manner, and adjustments recorded as necessary. Accounting tasks such as reconciling and adjusting accounts play a key role in proving the accuracy of accounting data and ensuring that the check and balances among segregated duties are functioning. Areas we noted these conditions included investment accounting, premium receipts, and accounting for other receivables including deductibles.

We also understand that changes in personnel occurred during the year which may have contributed to these conditions. We believe that formalizing accounting policies and procedures manuals could help mitigate these types of situations in the future.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are not material weaknesses.

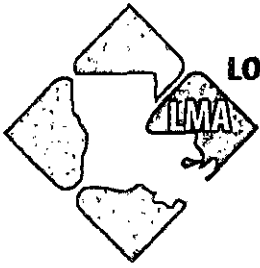
#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, Louisiana Municipal Risk Management Agency – Reserve Fund, others within the entity, and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 8, 2010



**LOUISIANA MUNICIPAL ASSOCIATION**  
a unified voice for municipalities since 1926

President  
**Susan Menard**  
Mayor, Cankton

First Vice President  
**Bobby R. Washington**  
Mayor, Cullen

Second Vice President  
**Glenn L. Brasseaux**  
Mayor, Carencro

Executive Director  
**Tom Ed McHugh**

Daryl G. Purpera  
Legislative Auditor  
P.O. Box 94397  
Baton Rouge, Louisiana 70804-9397

Dear Sir,

In the Financial Statements for the Louisiana Municipal Risk Management Agency Workers' Compensation Fund, Public Liability Fund, and Reserve Fund, for the year ended December 31 2009, our auditors Postlethwaite & Netterville, noted a significant deficiency in internal control over our financial reporting in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. The deficiencies were described as follows:

*Financial Reporting Process* – The annual audited financial statements include significant adjustments to report the Funds' financial statements on an accrual basis in accordance with U.S. generally accepted accounting principals. Management should implement additional financial reporting procedures to provide interim reporting on an accrual basis of accounting as opposed to essentially a cash basis of accounting. This can be accomplished by expanding financial processes related to premium recognition as well as developing processes for estimating and recording interim loss reserves and related expenses.

*Loss Reserve Setting and Development* – The Fund's loss data should be continually evaluated to better insure sufficient and reliable information is available to estimate loss reserves with reasonable accuracy and consistency. Sufficient industry data and Fund specific information should also be regularly evaluated to assist in the development of fair and reasonable loss reserves and premium rates to diversify the risks among the Fund's membership.

*Reconciliation Process* – During the performance of our audit process, we noted that certain general ledger and other subsidiary ledgers were not reconciled, or not reconciled in a timely manner, and adjustments recorded as necessary. Accounting tasks such as reconciling and adjusting accounts

play a key role in proving the accuracy of accounting data and ensuring that the check and balances among segregated duties are functioning. Areas we noted these conditions included investment accounting, premium receipts, and accounting for other receivables including deductibles.

When the audit results were presented to the Board of Directors at the June 16, 2010, meeting, these deficiencies were noted.

*Financial Reporting Process* -The deficiencies as noted will be eliminated by having the Chief Financial Officer of the Louisiana Municipal Association make the adjustments to the accounts receivable and unearned premium accounts to properly reflect the accrual basis of the receivables/unearned premiums as well as related revenue. Reinsurance receivables will also be adjusted by the Chief Financial Officer.

*Loss Reserve Setting and Development* -The Fund's loss data will be continually evaluated to better insure sufficient and reliable information is available to estimate loss reserves with reasonable accuracy and consistency. New procedures will be implemented for estimating and recording claims loss reserves and related expenses. An additional report demonstrating reserve adjustments for all fund years will be provided to the board on a quarterly basis.

*Reconciliation Process*- In mid 2009, LMA experienced turnover in key accounting personnel, and is currently in the process of reorganizing the Accounting Department and training new personnel. This reorganization and addition of accounting staff will ensure the implementation of additional procedures to mitigate problems in the future. Investment accounts, premium receipts, and deductibles will be reconciled monthly. Formalized accounting policies and procedures are also being developed to mitigate these problems in the future.

Very truly yours,



Tom Ed McHugh  
Executive Director  
Louisiana Municipal Association

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**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

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**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

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**INDEPENDENT AUDITORS' REPORT**

Officers and Trustees  
Louisiana Municipal Association  
Unemployment Compensation Fund  
Baton Rouge, Louisiana

We have audited the accompanying statements of net assets of Louisiana Municipal Association - Unemployment Compensation Fund (a quasi-public organization) (the Fund) as of December 31, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Association - Unemployment Compensation Fund as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 8, 2010, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audits.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 8, 2010

## **LOUISIANA MUNICIPAL ASSOCIATION UNEMPLOYMENT COMPENSATION FUND**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS** **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Association - Unemployment Compensation Fund's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2009 and 2008. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

#### **Financial Highlights**

- The assets of the Fund exceeded its liabilities at December 31, 2009 by \$3,863,331 compared to \$4,224,026 as of December 31, 2008, which is a 8.54% decrease from the previous year.
- At December 31, 2009 and 2008, the Fund's assets totaled \$4,345,022 and \$4,441,539, respectively, which consisted primarily of cash and investments.
- The Fund reported premiums earned of \$298,302 and \$314,406 during the years ended December 31, 2009 and 2008, respectively, and a decrease in net assets of \$360,695 in 2009 compared to an increase in net assets of \$446,261 during 2008.
- Investment income was \$73,605 during 2009 compared to \$363,368 during 2008. The decrease of 79.7% is attributable primarily to the fund purchasing securities with lower yields than in prior years as well as 2008 including a substantial increase in the fair value of the Fund's investments.

#### **Overview of the Financial Statements**

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the financial statements, which explain some of the information in the financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by private sector. The Statements of Net Assets includes all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). These statements provide the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. These statements measure the success of the Fund's operations over the year and can be used to determine whether the Fund has successfully recovered all its costs through its premium and investment income, profitability and credit worthiness. The final required financial statement is the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

**LOUISIANA MUNICIPAL ASSOCIATION UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Overview of the Financial Statements (continued)**

The preparation of these financial statements requires the utilization of significant estimates, many of which will not be known for many years. Changes in estimates as well as the differences in actual results and estimated amounts will be included in the Statement of Revenues, Expenses and Changes in Net Assets as these circumstances become known.

**Financial Analysis of the Fund**

The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the net assets of the Fund and changes in them. The net assets (difference between assets and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net assets are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, judicial environment, and new or changed government legislation.

**Condensed Statements of Net Assets**

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Total assets	\$ 4,345,022	\$ 4,441,539
Total liabilities	<u>481,691</u>	<u>217,513</u>
Net assets	<u>\$ 3,863,331</u>	<u>\$ 4,224,026</u>

The Fund's total assets consist almost entirely of investments in U.S. Treasury and Agency securities and cash equivalents. The Fund's liabilities consist of estimated benefits and related administration costs payable at year end.

**Condensed Statements of Revenues and Expenses and Changes in Net Assets  
for the Years Ended December 31,:**

	<u>2009</u>	<u>2008</u>
Operating revenues	\$ 298,302	\$ 314,406
Operating expenses	<u>732,602</u>	<u>231,513</u>
Operating income	(434,300)	82,893
Non-operating income	<u>73,605</u>	<u>363,368</u>
Change in net assets	<u>\$ (360,695)</u>	<u>\$ 446,261</u>

**LOUISIANA MUNICIPAL ASSOCIATION UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Financial Analysis of the Fund (continued)**

Operating revenues decreased by 5.2% from the years ended December 31, 2009 and 2008 as a result of less premium received due to decrease in participant wages from the prior year. Claims expense increased approximately 288% during the year ended December 31, 2009 primarily as a result of the growth in unemployment benefits paid as well as related increases to reserves for unpaid claims. During 2009, the unemployment rate throughout Louisiana, and among covered municipalities, increased as a result of overall declines in economic activities. Additionally, during 2009, investment income decreased due to lower interest rates and the decrease in market value in the Fund's portfolio which consists primarily of U.S. Treasury and agency securities. The Fund's net assets for 2009 decreased 8.5% primarily as a result of increased claims and decreased premiums and investment income.

During 2009, the Fund experienced increased unemployment claims consistent with general downturns in the economy and national unemployment rates. Management anticipates unemployment trends in the State of Louisiana will continue to remain comparable in 2010. At this time, management does not anticipate an increase in premiums, due to the overall health of the Fund, but will continue to monitor the future obligations. These trends indicate the Fund will likely incur greater benefit obligations and operating losses similar to the year ended December 31, 2009.

**Requests for Information**

This financial report is designed to provide members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Association - Unemployment Compensation Fund, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**STATEMENTS OF NET ASSETS**  
**DECEMBER 31, 2009 AND 2008**

**ASSETS**

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents (note 2)	\$ -	\$ 94,491
Investments (note 2)	4,224,162	4,213,755
Accounts receivable	71,265	84,417
Prepaid expenses	17,132	-
Accrued interest receivable	<u>32,463</u>	<u>48,876</u>
Total Assets	<u>\$ 4,345,022</u>	<u>\$ 4,441,539</u>

**LIABILITIES AND NET ASSETS**

Liabilities:		
Outstanding checks in excess of bank balance	\$ 8,697	\$ -
Unpaid claims liability (note 3)	350,000	150,000
Accrued expenses	<u>122,994</u>	<u>67,513</u>
Total Liabilities	481,691	217,513
Net assets	<u>3,863,331</u>	<u>4,224,026</u>
	<u>\$ 4,345,022</u>	<u>\$ 4,441,539</u>

The accompanying notes are an integral part of these financial statements.

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b><u>OPERATING REVENUES</u></b>		
Premiums earned	\$ 298,302	\$ 314,406
Total operating revenues	<u>298,302</u>	<u>314,406</u>
<b><u>OPERATING EXPENSES</u></b>		
Claims expense (note 3)	664,698	171,340
Service agent fees	56,651	45,308
Miscellaneous	11,253	14,865
Total operating expenses	<u>732,602</u>	<u>231,513</u>
<b><u>OPERATING (LOSS) INCOME</u></b>	(434,300)	82,893
<b><u>NON-OPERATING INCOME</u></b>		
Investment income - net	<u>73,605</u>	<u>363,368</u>
<b><u>CHANGE IN NET ASSETS</u></b>	(360,695)	446,261
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>4,224,026</u>	<u>3,777,765</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 3,863,331</u>	<u>\$ 4,224,026</u>

The accompanying notes are an integral part of these financial statements.

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Operating (loss) income	\$ (434,300)	\$ 82,893
Adjustments to reconcile operating income to net cash provided by operations:		
Changes in operating assets and liabilities:		
Accounts receivable	13,152	(15,553)
Prepays	(17,132)	-
Accrued expenses and unpaid claims	255,481	(21,559)
Net cash (used in) provided by operating activities	<u>(182,799)</u>	<u>45,781</u>
Cash flows from investing activities:		
Purchases of investments	(3,064,402)	(884,316)
Proceeds from sale or maturity of investments	2,976,555	690,302
Interest income received	167,458	195,603
Net cash provided by investing activities	<u>79,611</u>	<u>1,589</u>
Cash flows from financing activities:		
Outstanding checks in excess of bank balance	8,697	-
Net cash provided by financing activities	<u>8,697</u>	<u>-</u>
Net change in cash	(94,491)	47,370
Cash, beginning of year	94,491	47,121
Cash, end of year	<u>\$ -</u>	<u>\$ 94,491</u>

The accompanying notes are an integral part of these financial statements.

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES**

***(a) Background and Financial Statement Presentation***

Louisiana Municipal Association - Unemployment Compensation Fund (the Fund) was formed under Louisiana Revised Statutes 23:1552. The Fund consists of Louisiana municipalities who have joined together through self-insurance agreements to provide unemployment compensation fund insurance to member municipalities. Administration of the Fund is vested in the Executive Board of the Louisiana Municipal Association (LMA). If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims.

LMA is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for the Fund.

As of December 31, 2009, there were approximately 6,053 participants and 158 participating municipalities. As of December 31, 2008, there were approximately 6,943 participants and 152 participating municipalities.

The Fund and LMA are affiliated through common membership and management control. Although both of these entities are related parties, their net assets are available only to the respective entity for its operations. For this reason each entity is presented as a separate "stand alone" entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 10 and GASB Statement No. 14.

***(b) Basis of Accounting***

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. The Fund applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements.

Since the business of the Fund is essentially that of an insurance company having a business cycle greater than one year, the statements of net assets are not presented in a classified format.

***(c) Cash and Cash Equivalents***

For the purposes of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Because certificates of deposit, money markets and repurchase agreements are usually purchased with maturities of 90 days or more or are reinvested continuously, they are classified as investments.

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(d) *Investments***

Investments are reported at estimated fair value. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized gains and losses and changes in unrealized gains and losses on investments recorded at fair value are included in net investment income. Investments include money market accounts, repurchase agreements, U.S. Government Agency obligations and U.S. Treasury securities.

**(e) *Unpaid Claims Liability***

Claims expense consists of estimated amounts for claims incurred during the current year and adjustments to the estimates of prior years' claims liability. These changes are reflected in operations in the period they become known. The Fund establishes claim liabilities based on estimates of the ultimate cost of claims that have been reported, but not yet settled.

**(f) *Income Taxes***

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

**(g) *Premium Income and Accounts Receivable***

Premiums are recognized as income over the life of the policies as they become earned. Any adjustments to premiums are considered to be a change in estimate and are recognized in the period they become known.

The Fund considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made. Collections on accounts previously written off are included in other income when received.

**(h) *Use of Estimates***

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, fair values of investments and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

**(i) *Reclassifications***

Certain items in the 2008 financial statements have been reclassified to be comparative to the 2009 presentation.

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**2. DEPOSITS AND INVESTMENTS**

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund is in compliance with these revised provisions during the years ended December 31, 2009 and 2008.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. Included in investments are money market accounts and repurchase agreements.

GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, established and modified disclosure requirements related to investment risk. This section describes the various types of investment risk and the Funds exposure to each type.

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31:

<u>Investment Type</u>	<u>2009</u>		<u>2008</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S Treasury bonds and notes	\$ 178,381	\$ 173,828	\$ 2,766,455	\$ 2,545,950
U.S. Government mortgage-backed securities	1,333,534	1,303,983	1,032,173	1,973,020
U.S. agency debt obligations	2,441,942	2,420,137	249,011	238,998
U.S. Government guaranteed obligations	81,939	79,958	41,558	39,962
Money market funds	<u>188,366</u>	<u>188,366</u>	<u>124,558</u>	<u>124,558</u>
TOTAL	<u>\$ 4,224,162</u>	<u>\$4,166,272</u>	<u>\$ 4,213,755</u>	<u>\$ 4,922,488</u>

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

2. **DEPOSITS AND INVESTMENTS** (continued)

**Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured, or are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Fund's name.

The Fund's investments in government debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by a counterparty. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission.

**Credit Risk**

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a good tool with which to assess credit risk on debt obligations. U.S. Government debt securities are not required to be rated. The following table is provided for use in assessing the Fund's exposure to credit risk at December 31:

Standard and Poor's Rating	Estimated Fair Value 2009	Estimated Fair Value 2008
Money market funds	\$ 188,366	\$ 124,558
U.S. Government Securities		
U.S. Treasury securities - Not rated	1,333,534	689,465
Rated AAA	2,702,262	3,399,732
	<u>\$ 4,224,162</u>	<u>\$ 4,213,755</u>

Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund has no investments in any one issuer that represented 5% or more of total investments, other than the U.S. Government.

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

2. **DEPOSITS AND INVESTMENTS** (continued)

**Interest Rate Risk**

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2009:

<u>Investment Type</u>	<u>Estimated Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 - 5 Years</u>	<u>5 - 10 Years</u>	<u>Over 10 Years</u>
Money market funds	\$ 188,366	\$ 188,366	\$ -	\$ -	\$ -
U.S. Treasury bonds and notes	178,381	-	129,518	48,863	-
U.S. Government mortgage-backed securities	1,333,534	-	59,979	320,063	953,492
U.S. agency debt obligations	2,441,942	78,383	892,189	1,471,370	-
Corporate obligations	81,939	-	81,939	-	-
	<u>\$ 4,224,162</u>	<u>\$ 266,749</u>	<u>\$ 1,163,625</u>	<u>\$ 1,840,296</u>	<u>\$ 953,492</u>

Investment income for the years ended December 31, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Interest income	\$ 152,566	\$ 170,640
Net realized gain (loss)	154,504	( 9,224)
Unrealized net (loss) gain arising during the year	( 233,465)	201,982
	<u>\$ 73,605</u>	<u>\$ 363,398</u>

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

3. **CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY**

The following represents changes in the Fund's aggregate unpaid claims liability for the years ended December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
	(in thousands)	
Unpaid claims and claims adjustment expenses liability at beginning of year	\$ <u>150</u>	\$ <u>100</u>
Incurring claims and claims adjustment expenses:		
Provision for insured events of the current year	<u>665</u>	<u>171</u>
Payments:		
Claims and claims adjustment expenses attributable to insured events of current year	315	21
Claims and claim adjustment expenses attributable to insured events of prior years	<u>150</u>	<u>100</u>
Total payments	<u>465</u>	<u>121</u>
Total unpaid claims and claims adjustment expenses liability at end of year	\$ <u>350</u>	\$ <u>150</u>

4. **SUBSEQUENT EVENTS**

Management has evaluated events through the date that the financial statements were available to be issued, June 8, 2010 and determined that there were no events that require disclosures.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Officers and Trustees  
Louisiana Municipal Association  
Unemployment Compensation Fund  
Baton Rouge, Louisiana

We have audited the financial statements of Louisiana Municipal Association – Unemployment Compensation Fund (the Fund), as of and for the year ended December 31, 2009, and have issued our report thereon dated June 8, 2010. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bureau's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of the Louisiana Municipal Association – Unemployment Compensation Fund and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 8, 2010